



JUL-SEP 2011/3RD QUARTER
REAL ESTATE
HIGHLIGHTS

Knight Frank

HIGHLIGHTS

- Developers' new sales decreased 4.1% in 3Q 2011. On a quarter on quarter basis, the pace of private property price increase moderated further to 1.3% for the 8th consecutive quarter since 4th Quarter 2009 while prices of resale HDB flats rose 3.8%. Rents of private residential properties inched up marginally at 0.8%.
- Amidst softening global economic conditions, retail rents island-wide stayed firm. Orchard Road retail rents increased marginally following stabilising supply and influx of new retail brands.
- Following weakening global economies, dampened sentiments and upcoming supply, 3Q 2011 office market slows down signalling the possible near peak of the office cycle.
- The Industrial property sector remains stable despite global uncertainties and lack-lustre performance in several manufacturing clusters.

RESIDENTIAL PROPERTY MARKET

Developers' new sales decreased 4.1% in 3Q 2011. On a quarter on quarter basis, the pace of private property price increase moderated further to 1.3% for the 8th consecutive quarter since 4th Quarter 2009 while prices of resale HDB flats rose 3.8%. Rents of private residential properties inched up marginally at 0.8%.

Private Residential Sector

Mass Market took the Limelight

The new supply and take-up rates for private residential homes in 3Q 2011 decreased marginally by 2.7% and 4.1% q-o-q respectively to 4,673 and 4,262 units. Residential activities in the primary market in 3Q 2011 continued to focus at Outside Central Region (OCR) and accounted for 67% of the total launches and 74% of the total new sales. Sales volume at OCR saw an optimistic increase of 13.7% q-o-q in 3Q 2011, albeit lower than the whopping jump of 42.5% in 2Q 2011. The strong mass market activities were partly due to successful suburban new projects such as A Treasure Trove, Boathouse Residences, Euhabitat, and The Luxurie.

The site preparation timeline has been notably shortened as developers capitalize on the strong demand for residential homes as evident in the good sales seen in recent new projects. In the past, most developers took more than a year to launch their projects after winning the site. Sites won in 2006 and 2007 took an average turnaround time of at least 12 months. By contrast, sites acquired in 2009 were rolled out within 6-11 months. This was shortened further to about 6- 8 months for sites sold in 2010. The shortest duration is 5 months for The Luxurie in 2011 whereby the site was bought in March 2011 and subsequently launched in August 2011.

Sales volume at the primary market dropped by 60.7% and 17.2% quarter-on-quarter in Core Central Region (CCR) and Rest of Central Region (RCR) respectively. No major high-end projects were launched in 3Q 2011, with the exception of The Verv @ RV situated at River Valley and Three Balmoral at Balmoral Road. Both developments comprise less than 50 units each. Sentiments in luxury property market has not recovered due to subdued outlook affected by sluggish economic conditions in the US and uncertainty over the euro zone sovereign debt crisis. High-end investors were increasingly cautious while developers hold back new launches. A record-breaking transaction of \$19 million (or \$6,393 psf) in August 2011 for a four-bedroom apartment at The Marq on Paterson Hill created some excitement in the prime residential segment. However, this is a once off transaction and volume had not picked up en-mass.



Increase in Proportion of Foreign Buyers

Foreigners (comprising Singapore Permanent Residents and Non Permanent Residents) accounted for 32.4% of the total private property transactions in 3Q 2011. This is the first time foreign buyers proportion exceeded 30% of the overall market share.

Chinese home buyers continued to lead the pack with 30.4% share, while buyers from Malaysia and Indonesia took the 2nd and 3rd position, accounting for 18.9% and 17.5% of the total foreign transactions, respectively.

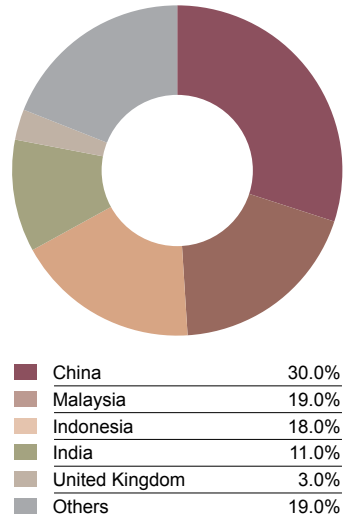
While the proportion of foreign buyers increased in 3Q 2011, the absolute number of foreigners buying properties in Singapore fell 18.1% quarter-on-quarter, in tandem with the slowdown in the overall market.

Suburban Homes Prices Escalate

Based on URA Property Price Index (PPI) in 3Q 2011, property prices increased at a slower pace for the 8th consecutive quarter since 4Q 2009. Prices of private residential properties increased by 1.3% in 3Q 2011, lower than the 2.0% increase in the previous quarter (Chart 3).

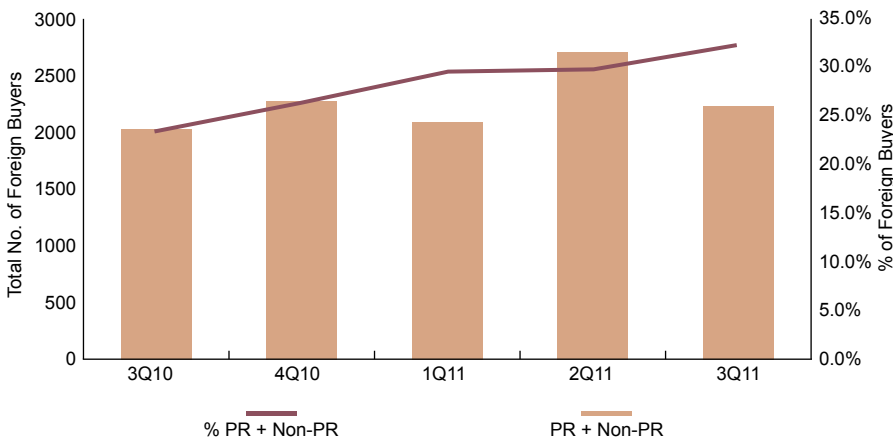
In tandem with the higher take-up rate of private residential properties in OCR, prices of residential properties in this market segment experienced the highest growth with a quarter-on-quarter PPI increase of 2.1%. In comparison, prices of mid-end properties increased q-o-q by 1.2% while prices of high-end homes in CCR rose at a slower pace of 0.7% q-o-q.

Chart 2
Percentage of Foreign Homebuyers (PR & NPR) by Nationalities in 3Q 2011 (Landed and Non-Landed Private Residential Properties)



Source: REALIS, Knight Frank Research

Chart 1
Percentage of Foreign Homebuyers (PR and NPR) in 3Q 2011 (Landed and Non-Landed Properties)



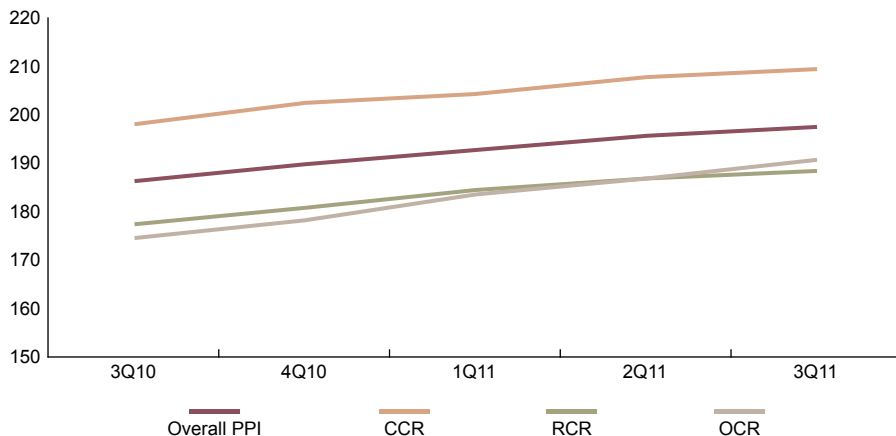
Source: REALIS, Knight Frank Research

Based on Knight Frank in house data, prices of high-end homes, as denoted by selected residential properties in CCR, inched up marginally by 0.3% in 3Q 2011 (Chart 4). Properties in this segment were transacted at \$2,266 psf on average. Except for a few record sale prices in the ultra luxury segment, high-end investors generally shy from luxury properties over the last two quarters, in view of the weakened global economic condition, led by concerns over EU sovereign debts and the possible economic slowdown.

Mid-end market homes saw a 0.6% quarter-on-quarter drop, as average transacted prices fell from \$1,562 psf in 2Q 2011 to \$1,553 psf in 3Q 2011. Prices of mass-market residential properties on the contrary increased at faster rate. These properties were transacted at \$992 psf on average, 3.4% quarter-on-quarter increase, higher than 3.2% increase in 2Q 2011.

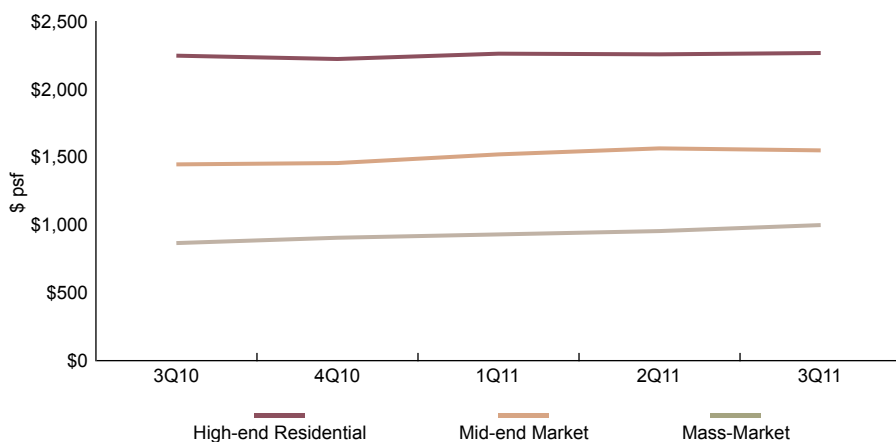
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Chart 3
URA Property Price Index 3Q 2011



Source: REALIS, Knight Frank Research

Chart 4
Prices of Private Properties by Segment



Source: REALIS, Knight Frank Research

Sustained Rental Growth

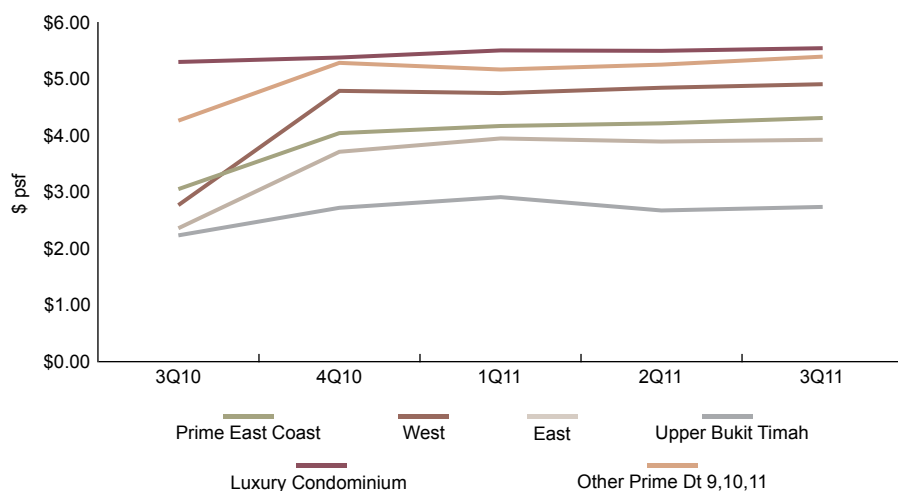
URA quarterly data release showed moderate rental increase in all segment of the private residential market. Rents of non-landed properties in OCR and RCR inched up marginally by some 1.0% q-o-q, while that in CCR increased 0.4% in 3Q 2011. Rentals of the overall private residential properties increased by 0.8% in 3Q 2011, less than the 1.3% increase 3Q 2011.

The Knight Frank in house data shows marginal q-o-q rental increase in high-end and mass market segments at 1.9% and 0.4% respectively. The figures were 6.5% and -1.4% q-o-q in 2Q 2011. Rent in mid-market segment, represented by properties situated in East Coast and Lower Bukit Timah areas, increased 2.3%, as contrast to 3.3% drop in 2Q 2011.

Over the recent years, rental growth is supported by influx of foreigners coming to Singapore and the run up in properties prices where landlord took the opportunity to increase rents during renewal to maintain property yields. The slowdown in property price appreciation and tightened immigration policies may consequently moderate residential rental growth. Arising from the uncertain economic outlook, more companies are notably offering local packages for expatriates and becoming more selective in hiring in a bid to keep operational cost in control. Rentals may lose growth momentum as more newly completed residential homes are being pushed out to the rental market. We expect general average residential rental to increase marginally less than 2% or to remain flat for the rest of year.



Chart 5
Monthly Gross Rents of Non-Landed Residential Properties by Areas



Source: Knight Frank Research

Public Housing Sector

Resale Prices escalate despite Drop in Sales Volume

Prices of resale HDB flats increased 3.8% over the previous quarter, higher than the 3.1% increase in 2Q 2011. Sales volume, however, fell by about 10% quarter-on-quarter, registering 5,903 transactions in 3Q 2011. Median Cash-Over-Valuation (COV) ranges from the low \$29,000 for 3-room flats in Woodlands to the high \$68,000 for executive flats in Tampines.

The increase in income ceiling from \$8,000 to \$10,000 for Build-to-Order (BTO) flats and \$10,000 to \$12,000 for Executive Condominiums announced in August 2011 gives more families the added housing options, in addition to resale flats and private property. This, coupled with the increase in public housing supply, has siphoned off some demand for resale HDB flats in 3Q 2011. As at end of 3Q 2011, HDB

has launched 23,833 flats, including BTO and units sold under the Sale of Balance Flats.

Outlook

Homes built to meet Genuine Demand

We expect developers to push out more private residential launches till end of 4Q 2011. Total new sales, excluding executive condominiums, are expected to be at least 16,000 units. Supported by cheap financing and genuine demand, mass market homes should continue to see strong sales. Meanwhile, high-end market, which has higher proportion of investors, will continue to see selective buying and overall volume is not likely to spike substantially arising from uncertain investment climate and a looming possibility of a recession in Singapore.

If the economic performance turns unexpectedly for the worse by a large magnitude, private home prices are expected to moderate albeit any corrections are expected to be marginal and capped up to 5% for the rest of the year. Otherwise,

private home prices in general should hold or still increase marginally at 1-2% q-o-q in 4Q 2011.

Sustained Rate of Price Increase in the Short Term

Prices of resale HDB flats will continue to rise at 3-4% on quarterly basis over the next 2 to 3 quarters notwithstanding new supply of new flats being launched in the primary market as construction will typically take around 2 years to complete. Demand in resale market is expected to be still strong since Singapore Permanent Residents, and Singaporean Singles below age 35 who are not eligible for BTO flats will be scouring the secondary market for suitable alternatives. In addition, supply of resale HDB flats is limited due to shortage of new HDB flats built over the last decade, especially during 2006-2008 period.

In the longer term as the new batch of BTO flats are completed, prices of resale HDB flats are expected to moderate to a more sustainable level. HDB is expected to launch 28,000 units in total for the whole of 2011 and another 25,000 BTO flats by the end of 2012.

RETAIL PROPERTY MARKET

Amidst softening global economic conditions, retail rents island-wide stayed firm. Orchard Road retail rents increased marginally following stabilising supply and influx of new retail brands.

Market Pulse

The Changing Dynamics of Orchard Road

Hennes & Mauritz (H&M) opened its big-box store on Orchard Road this quarter after much hype. For trendy brands like H&M and soon-to-open Abercrombie & Fitch (A&F), their reputation precedes their physical presence in Singapore, where the population is well-travelled and well-informed. Their entrance is warmly welcome by a market with an appetite for a wider range of fashion choices.

The opening of Knightsbridge at Grand Park Orchard and H&M at Orchard Building reinforces the strength of the Somerset area, stretching between Paragon and Centrepoint. A fair number of major developments and refurbishments on Orchard Road in recent years concentrated in this area, with Centrepoint, Mandarin Gallery and Paragon embarking on their makeovers between 2006 and 2008, followed by the completions of 313@ Somerset and Orchard Central in the second half of 2009. Going forward, more new shopping malls are in the offing. This includes the addition of approximately 275,000 sq ft of new shopping space at the

former Specialists' Shopping Centre/Phoenix Hotel and Orchard Emerald site, and Yen San Building at 268 Orchard Road. The new supply is expected to be ready in 2013.

Juxtaposed against the rest of Orchard, malls on the Somerset stretch have a coherent trendy and fashionable image, with mid- to up-market brands occupying prime spaces and frontage. This strengthened positioning will appeal to a significant proportion of the economically active population and wealthy tourists who regard fashion as a lifestyle, furthering the leverage these malls have on their prime location.

Cost-Conscious Consumers Shop Online for Deals

Consumers have become increasingly cautious and cost-conscious in their discretionary spending amidst global economic uncertainty. More Singaporeans scour sites like GMarket and Groupon for bargain-priced deals, or turn to foreign shopping platforms like Amazon.com or Ebay.com in light of the strong Singapore dollar.

Simultaneously, online retailers are looking to strengthen their position, and continue to enhance the online shopping experience by offering services such as hassle-free return policies and free shipping. Some online retailers were notably opening physical shops in shopping malls to cater to consumers' inherent need to examine merchandise physically before making purchases online.



Inevitably, traditional retailers must complement their brick-and-mortar stores with their online shopping sites in order to defend their market share. Promotions and discounts will become more and more important to attract the spending of increasingly discerning consumers.

Consumer Sentiments

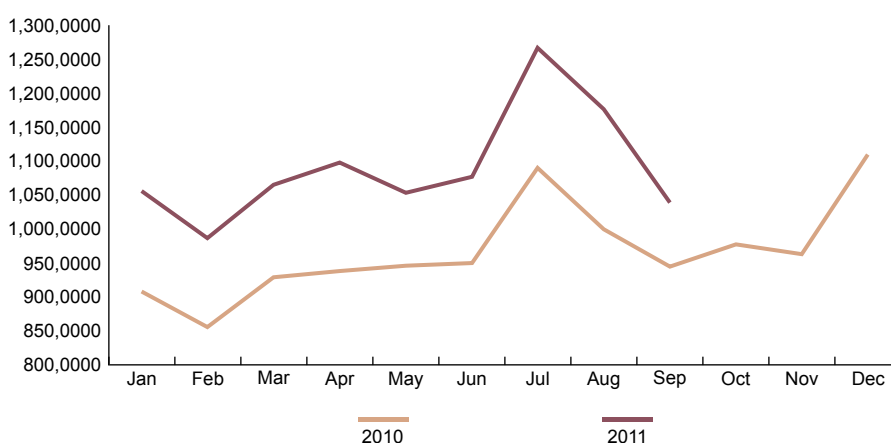
Lower Consumer Confidence Evidenced by Lower Retail Sales

Following the uncertainties in the economy, consumers were seen tightening their belt in the third quarter. The latest Retail Sales Index (RSI), excluding Motor Vehicles, which measures retail sales volume, showed lack-lustre performance, as it rose marginally by 1.2% in July, and then fell by 4.6% and 0.3% in August and September, despite continued strong monthly tourist arrivals of over a million. While consumers remained cautious and retail sales were subdued this quarter, retailers can generally look forward to the festive season in the final quarter of the year which usually sees higher discretionary spending.

Tourism Sector Stays Resilient

Tourist arrival numbers were 1.27 million, 1.18 million and 1.0 million in July, August and September respectively, bringing total arrivals in the first 9 months of the year to 9.84 million. This puts Singapore in a good position to reach the Singapore Tourism Board's target of 12-13 million visitors for the year 2011. December also traditionally sees the highest visitor numbers annually, with the exception of December 2008 which saw the onset of the financial crisis.

Chart 1
Visitor Arrival Statistics



Source: Singapore Tourism Board; Knight Frank Research

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3Q 2011 Retail Rents

URA Retail Rental Index QOQ Growth for Central Area Pulls Ahead of Fringe Area

The Retail Index for Central Area rose 0.91% quarter on quarter (q-o-q), while that of the Fringe Area remained flat with a marginal 0.09% increase q-o-q. Overall, Rental Index for the Central Region increased 0.51% q-o-q.

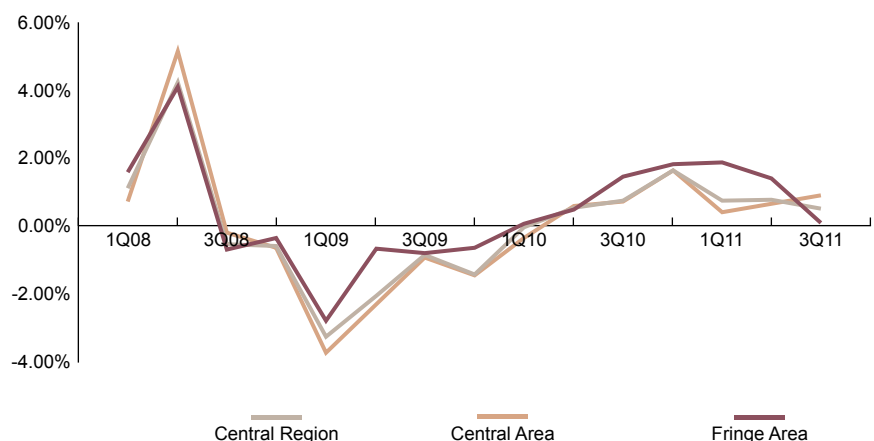
To date, the Rental Index of Central Area has risen 2.01% in the first 9 months of the year, lower than the 3.46% growth for Fringe Areas. The pace of rental increase of retail space in fringe areas slowed down and remained fairly flat compared to 2Q 2011.

Orchard Road Prime Retail Rents Rebounded

Orchard Road prime retail rents rebounded in the third quarter, moving up 2.8%. This is in contrast to the 3.9% drop in previous quarter marked by the flight of retailers to newer malls. The improvement in rental arises from better vibrancy in the Somerset area where new, popular brands such as H&M and soon-to-open Abercrombie & Fitch at Knightsbridge are expected to attract more footfall which consequently lead to higher rentals transacted.

Overall, island-wide prime retail rents this quarter rose approximately 2.6% from the lower base in the second quarter. Sub-urban prime retail rents see little movement and continue to stay flat. Retailers in some of the existing sub-urban malls are adopting a wait-and-see approach in view of the upcoming supply of sub-urban malls which are slated to open in the next few years.

Chart 2
Q-o-Q change in Rental Index



Source: Urban Redevelopment Authority, Realis; Knight Frank Research



3Q 2011 Retail Occupancy

Islandwide Occupancy Rates Fell 0.4% to 93.9%

Islandwide occupancy rates in the third quarter fell 0.4% following a rise in supply of 150,690 sq ft and no change in demand. Approximately 30% of this new supply occurs in Downtown Core, but the area saw a 3.1% rise in occupancy, supported by a steep increase in demand following the previous quarter's fall.

Potential Retail Supply

Changi City Point and 112 Katong, currently 97% and 96% leased out, are slated to open in the final quarter of the year. By end

2012, sub-urban and fringe areas will see substantial new supply of approximately 587,000 sq ft and 521,600 sq ft of net leasable area respectively.

Meanwhile, some interesting activities due to take place in the central Region include the opening of Scotts Square in the 4th quarter of the year, the completion of the \$10 million make-over to City Link Mall in the 3rd quarter of 2012, and Suntec City's asset enhancement exercise, scheduled to begin in mid-2012 and end in 2015.

Market Outlook

With the uncertain economic climate, more retail space supply coming onstream, stiffer competition among retailers and increasingly demanding consumers, the future of the

retail property market may seem beset with difficulties. The short term indicators point to lowering consumer confidence and business expectations, although we can generally expect sales to be buoyant as we hit the festive season in the last quarter of the year.

Moving forward, Asia will be a promising region for retail brands traditionally based in Europe and America which have not made a foray into the Asian / Southeast Asian market. Expansion in Asia will form a core strategy of many of these brands as they continue to seek markets which give them a higher yield on their investments. Entering the Singapore market could give these brands access to tourists from the region, and serve as a fashion gateway to Asia.

There is further reason to stay optimistic about the sector in the longer-term, backed by a strong tourism industry, targeted to achieve 17 million visitor arrivals by 2015. The government remains committed to invest in the tourism and service industry to maintain the vibrancy that has been achieved so far.

Barring a significant shock to the economy, rents in the fourth quarter are expected to remain flat or inch up marginally as retailers adopt a wait-and-see approach, focusing on strengthening and consolidating their current positions.

Table 1
Knight Frank Third Quarter 2011 Prime Retail Rents

3Q 2011	Monthly Gross Rents for prime spaces* (\$/psf)
Islandwide	S\$ 29.69
Orchard (Central)	S\$ 41.33
Orchard (Fringe)	S\$ 22.90
Marina Centre, City Hall, Bugis	S\$ 29.64
Fringe Area	S\$ 22.50
Suburban	S\$ 32.07

* Based on pre-defined portfolio of properties; refers to prime specialty shop space on ground level with good frontage and of up to 1,500 sq ft
Source: Knight Frank Research

OFFICE PROPERTY MARKET

Following weakening global economies, dampened sentiments and upcoming supply, 3Q 2011 office market slows down signalling the possible near peak of the office cycle.

5.9% GDP Growth for 3Q 2011 but Challenging Times lies ahead

Though the 3Q 2011 advance estimates for Singapore economy registered a higher than expectation growth of 5.9%, the government lowered the growth forecast for this year to 5% in view of challenging times ahead.

With the exception of the biomedical sector, slowing activities were noted across other economic sectors in this quarter particularly for the Electronic, Transport & Storage and Financial Service sectors. Due to easing in global demand, electronic exports shrank 17% y-o-y. The construction and service sector had registered marginal growth of 0.4% and 3.6% y-o-y respectively. Levels of outputs were lack-luster as compared to the beginning of the year. Whilst there was a surge in performance for the biomedical sector, its volatile nature is unlikely to provide a steady support to economic growth.

The sluggish economic performance coupled with the worsening sovereign debt problems at EU had invariably dampened sentiments of both office landlords and tenants. Leasing and investment sales activities were also notably slowing down in the quarter. Consequently, the sluggish

activities lead to flattish office rents as companies become increasingly cautious toward hiring and space expansion.

Office Leasing and Investment Sales Activities Slow Down

Elevated concerns in both United States and Europe lead to a more measured outlook for the global economic growth. With greater caution in the economic environment, office leasing and investment sales activities had notably slowed down in 3Q 2011. Leasing activities were mainly confined to relocation activities rather than with expansion in mind. More investors adopted a "wait and see" mentality hoping to get greater clarity on the economic situation before committing.

Notwithstanding the completion of new office spaces such as Asia Square Tower 1 and Ocean Financial Centre, the 3Q 2011 island wide new net supply saw a marginal decrease of about 65,000 sq ft. The decrease arises from the demolition / refurbishment of some office buildings within the Central Region.

New office demand in the same quarter also eased to about 560,000 sq ft as most of these new space demands are mainly relocation moves rather than new take-ups or space expansions.

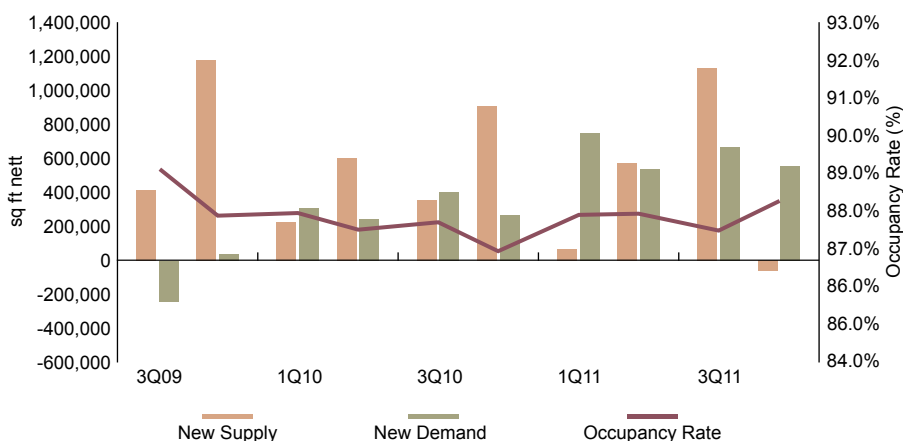
Volume of office leasing activities along Shenton Way/Robinson Road/Tanjong Pagar picked up due to the replacement needs of office tenants sited in office buildings slated for redevelopment. These affected tenants sought new replacement space within the same locality.



Whilst occupancy rates inched up to 88.3% this quarter, the rate is expected to level off in the coming quarters as some half a million square feet of office space (mostly from One Raffles Place Tower 2) are expected to be completed. The Marina Bay Financial Centre Tower 3, comprising of about 1.3 million sq ft in gross floor area, will be completed in 2012.

In September 2011, a Government Land Sales tender for a 0.29 ha site along Robinson Road closed with only three bids. The winning bid was at \$882 psf ppr and was significantly lower than analysts' expectations between \$1,100 - \$1,500 psf ppr. The lower bid reflects the cautious mood of developers and private investors.

Chart 1
Islandwide New Demand, New Supply and Occupancy



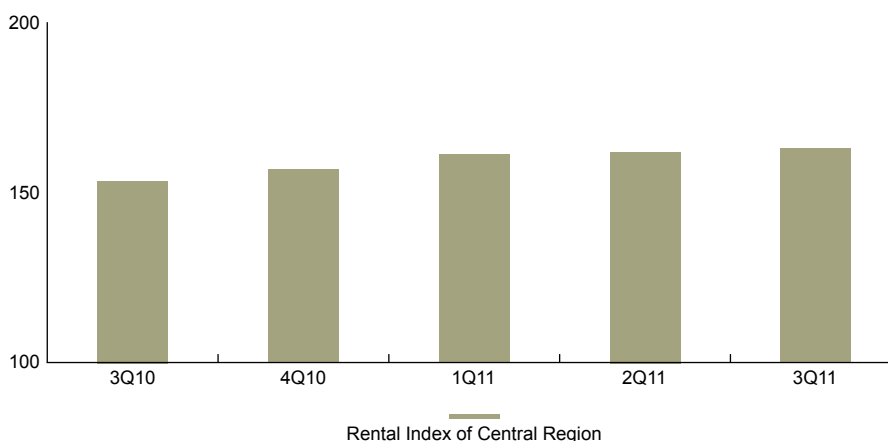
Source: Urban Redevelopment Authority, Knight Frank Research

Dampened Sentiments in Office Market

In 3Q 2011, URA Office Rental Index for Central Region inched up marginally by 0.9% to 175.9. Companies are reviewing their leasing requirement and opting to adopt a more cost effective and defensive operation model. Average rents outside the CBD are notably narrowing against CBD rents. In line with the long term government goal of decentralising commercial activities in the CBD, more companies are considering space options outside the CBD particularly locations where rentals are significantly lower and served by public transport network.

Based on Knight Frank internal office database, suburban office buildings in 3Q 2011 registered the highest q-o-q growth of 3.6% and 3.5% in Suburban (West) and Suburban (North) respectively. Increased demand was notably observed at office buildings such as at Harbourfront Tower 1 and United Square where rents and vacancy rates in had improved.

Chart 2
URA Rental Index for Central Region

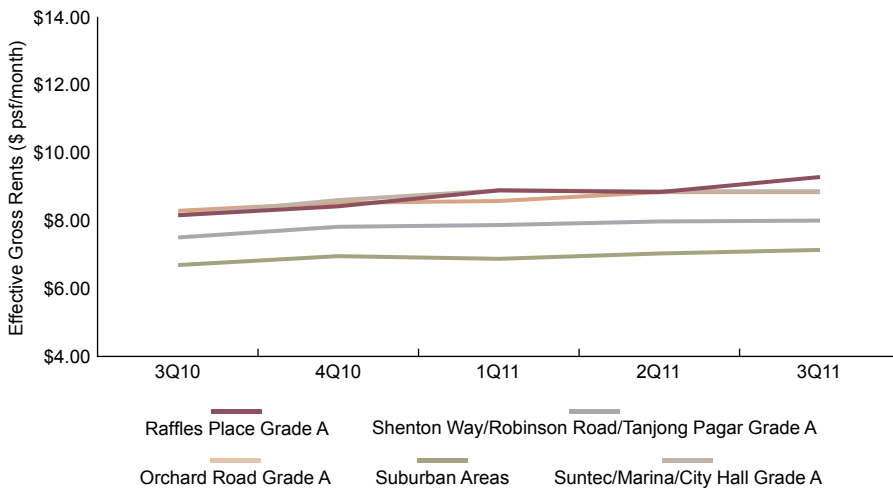


Source: Urban Redevelopment Authority, Knight Frank Research

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Chart 3

Knight Frank Effective Gross Office Rents



Source: Knight Frank Research

Average monthly office gross rents in Raffles Place increased by 0.9% this quarter with Super Grade A office building leading the pack by a q-o-q growth of 2.0% to achieve rents of \$13.49 psf. Super Grade A office building refers to new high specification office building situated at Marina Bay area such as MBFC. Though office rents for these buildings performed relatively well in previous quarters, we noted that vacancies for Super Grade A office buildings, on the

whole, is still striving toward steady state in terms of occupancy rates. For traditional Grade A office buildings, monthly gross rents remained flat at \$10.48 psf as landlords seek new tenants arising from the spate of past relocation towards newer buildings in Marina Bay.

Following increased leasing activities along Shenton Way/Robinson Road/Tanjong Pagar, average monthly gross office rents in

this micro market increased 2.0% to \$7.10 psf. Grade A offices increased 1.0% q-o-q to \$7.98 psf while other refurbished buildings also saw rental increase ranging \$6.14 - \$7.18 psf.

Overall monthly gross office rents in Suntec/Marina Centre/City Hall remains flat at \$9.63 psf. Vacancy rates, however, varies amongst the respective buildings within the micro market. Buildings at City Hall area saw greater demand than the others in the Suntec/Marina Centre/City Hall cluster.

Outlook

As more softening global conditions set in, growth in Singapore economy may be expected to head south. As stated from the Ministry of Trade and Industry, the economy may expand slower than projected GDP growth of 3- 5 %.

On average, the island-wide office rents are expected to remain flat in the next quarter. Based on our forecasting model, if sovereign debt crisis persist further followed by a significant slowdown in Singapore economic growth and a backdrop more than 10 million square feet of new supply in the next four years, office rents may correct by some 15% year on year. Henceforth, the marginal growth for office rents this quarter may signal a peaking office sector.

Table 1
Effective Monthly Rentals in 3Q 2011

Location	Effective Monthly Gross Rentals (psf)
CBD (Grade A)	
Raffles Place	S\$ 9.80 - S\$ 11.00
Suntec / Marina Centre / City Hall	S\$ 9.10 - S\$ 10.10
Shenton Way / Robinson Road	S\$ 7.50 - S\$ 8.10
Orchard Road	S\$ 9.00 - S\$ 9.50
Non-CBD	
Beach Road / Middle Road	S\$ 6.50 - S\$ 7.00
Suburban (North)	S\$ 6.60 - S\$ 7.10
Suburban (East)	S\$ 4.20 - S\$ 4.70
Suburban (West)	S\$ 5.60 - S\$ 6.30

Source: Knight Frank Research



INDUSTRIAL PROPERTY MARKET

The Industrial property sector remains stable despite global uncertainties and lack-lustre performance in several manufacturing clusters.

Engineering clusters also saw marginal growth. General Manufacturing, Precision Engineering and Electronics clusters however saw a decline in September 2011. Output of the Electronics cluster declined the most amidst weakening global demand for electronics.

Slow Economic Growth

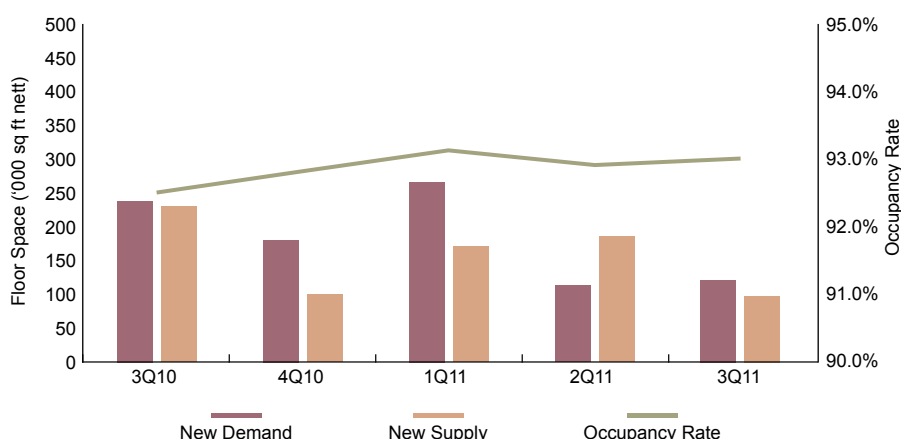
3Q 2011 saw an improvement in general economy growth from 2Q 2011. Overall Gross Domestic Product (GDP) growth grew by 5.9% on a year-on-year (y-o-y) basis as compared to 1.0% in the previous quarter. On the manufacturing side, the sector increased by 14.2% y-o-y in 3Q 2011 boosted by a rebound in biomedical manufacturing output. The Biomedical cluster received its boost with higher value added active pharmaceutical ingredients leading to strong performance for the quarter. The Chemical and Transport

Sustained High Occupancy in the Industrial Sector

In terms of real estate demand, industrial properties saw a marginal 0.1% increase in occupancy rates to achieve 93% in 3Q 2011.

Island-wide supply of industrial factory space increased by 1 mil sq ft with almost half of it being contributed by the new developments in the Western region of

Chart 1
Demand and Supply of Factory Space (Private and Public Sector)



Source: Urban Redevelopment Authority, Knight Frank Research

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Singapore. The East and North-East regions also contributed to a substantial proportion of new supply. The Central region however saw an overall decline of 248,000 sq ft in industrial land supply. New demand of factory space increased by 1.27 mil sq ft island-wide with the North East and Western regions making up 58% and 36% of the overall new space demand respectively.

In this quarter, Multi-User factory space was the largest contributor to overall new factory supply with 767,000 sq ft of space comprising 79% of overall factory supply in 3Q 2011. The bulk of Multi-User factory space stems from the Eastern and Western regions such as a development at Loyang Crescent and West Point Bizhub at Tuas South. With an overall new take-up of 710,000 sq ft of space, occupancy of Multi-User factory space remained strong at 90.6%.

New supply of Single-User Factory space was at a five year low in 3Q2011 based on a q-o-q basis. New supply in 2Q 2011 saw a surge of 1.69 mil sq ft of space whereby major completions by Rolls Royce Singapore contributed 270,000 sq ft of space at Seletar Aerospace Park and Sysland Pte Ltd contributing 688,000 sq ft space at Tuas Bay Drive. New supply in 3Q 2011 pales in comparison with only 215,000 sq ft of new Single-User factory space added. While the market continues to absorb new supply from the previous quarter, 3Q 2011 saw an overall new take-up of 398,000 sq ft q-o-q of space. Occupancy however remains stable at 94.8%.

Warehouse space saw only 140,000 sq ft of new supply in 3Q 2011 but new take-up on the other hand was a strong 1.13 mil sq ft. This could be a result in the drop of export

demand pushing manufacturers to take up more logistic space. Notably, occupancy rates are at a fifteen year high of 93.6%. Business Park supply saw a contraction in net new supply and new take-up of 161,000 sq ft achieving an occupancy rate of 81.9%.

Rental Stabilization and Price Growth

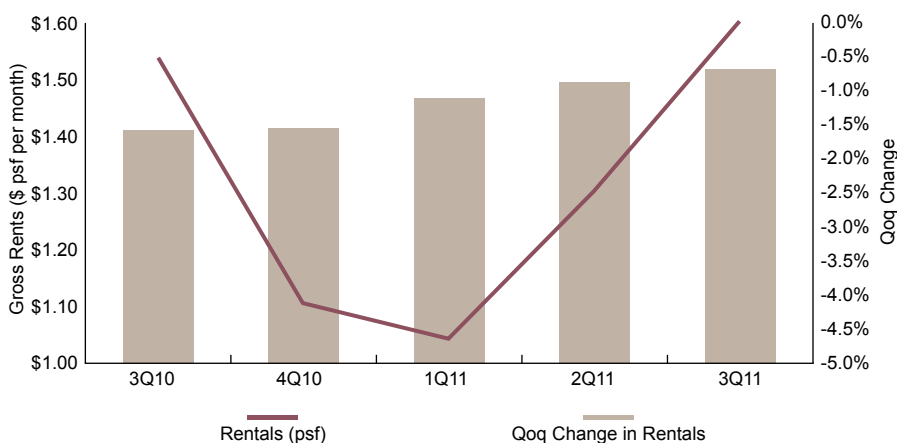
Conventional factory space rents have improved by a marginal 1.34% quarter-on-quarter (q-o-q) to reach an average of \$1.52 psf in 3Q 2011. This is the highest rental level achieved for Conventional Factory since 2008. Business Park space is notably at an onward recovery with a 1.51% q-o-q increase from 2Q 2011. Business Park rents stand at \$4.03 psf in 3Q 2011 while 3Q 2011 rents for High-Spec factory space remained flat at \$3.40 psf.

On the buying front, demand has remained high with industrial prices achieving a collective 7% q-o-q and 30.2% y-o-y growth. A total of 483 strata titled properties exchanged hands in 3Q 2011 with Conventional Factory space making up 96% of all transactions. An average capital value of \$280 psf was achieved in 3Q 2011. Properties in the Geylang, Clementi and Bukit Batok planning areas were the most sought after, making up 51% of all strata titled industrial transactions in 3Q 2011.

On the supply side, three industrial government land sale sites were sold which includes a Business 1 site at Woodlands Avenue 12, and two Business 2 sites at Pioneer Road and Tuas View Square.

OKH Developments was awarded the Woodlands Avenue 12 site with a land area of 221,690 sq ft and 2.5 plot ratio for \$84.2 mil or \$152 psf per plot ratio. There were 8 other bidders for the site.

Chart 2
Conventional Factory Space Rents



Source: Knight Frank Research



Table 1
Rentals of Sample Factory/Warehouse (Upper Floors) and Business Park Space
in 3Q 2011

Locality	Gross Monthly Rental (psf)	Capital Values (psf)
Conventional Industrial Space		
MacPherson / Paya Lebar	S\$ 1.68 – S\$ 2.09	S\$ 230 – S\$ 460
Kaki Bukit	S\$ 1.36 – S\$ 1.80	S\$ 190 – S\$ 375 (60-year leasehold)
Admiralty	S\$ 1.05 – S\$ 1.33	S\$ 150 – S\$ 279 (60-year leasehold)
High-tech Factory Space		
Islandwide	S\$ 3.18 – S\$ 3.62	N.A.
Business Park Space		
Islandwide	S\$ 3.82 – S\$ 4.25	N.A.

Source: Knight Frank Research

Outlook

GDP growth for 2011 was revised downwards to around 5% by MTI. Uncertainty in the Euro zone debt crisis and slower US economic growth has resulted in a decreased global demand for exports, affecting the manufacturing sector in Singapore. Key growth areas such as the Electronics cluster is expected to remain weak as global demand for semiconductor chips and other electronic components moderate in line with the downturn in the global electronics cycle. Knock-on effects are also expected to be felt in the Precision Engineering cluster and Wholesale Trade. While growth in the Biomedical cluster helped to bolster growth this quarter, this cluster is generally volatile and cyclical in nature thus unlikely to provide steady support to the manufacturing sector.

With greater caution over the broader economic outlook, demand for industrial space is expected to remain flat till end 2011. Capital values and rents of traditional industrial space are expected to remain stable. Government land sale sites may see lesser tender bids as developers and end users tread cautiously in the presence of global uncertainty.

The site at Pioneer Road received 7 bids and was eventually awarded to KNG Properties Pte Ltd for \$64.46 mil or \$176 psf per plot ratio. The site has a plot ratio of 2 and site area of 1.2 hectares.

Tuas View Square on the other hand was awarded to SCB Terraform, an end user for \$7.3 mil at \$174 psf per plot ratio.

In the private sector, Sabana REIT has also purchased a total of 754,000 sq ft of space from 6 other industrial properties with a total value of \$164.9 mil. These properties are a mix of Business 1 and 2 land use zonings and are located in the Central and Western regions of Singapore.

Apart from that, JTC Corporation has divested over 3.2 mil sq ft of industrial properties at a total price of \$688.6 mil. Eleven blocks of flatted factories and amenity centres were awarded to Mapletree Industrial Trust for \$400.3 mil while Soilbuild was awarded 10 blocks for \$288.3 mil. These properties are located in areas such as Bedok, Kampong Ubi, Kolam Ayer and Tai Seng.

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