

# APR-JUN 2011/2ND QUARTER REAL ESTATE HIGHLIGHTS

**Knight Frank**

## HIGHLIGHTS

- Developers' new sales increased 26% in 2Q 2011. Price increases moderated to 2% while rent increased marginally at 1.1%. Meanwhile, prices of resale HDB flats rose 3.1%.
- Island wide retail rents remained flat with slight drop in prime retail rents. Overall, retail market is still positive with stable island wide retail rents. Despite concerns on significant upcoming supply in Suburban region, rents in this region are still expected to grow by 1% - 3% for the rest of the year supported by current stable domestic consumption and higher expected income.
- Office rental growth continued to trend upwards in 2Q 2011 albeit at a slower pace. For the rest of 2011, CBD rental increase to slow down at a lower level averaging some 5.0%.
- Despite uncertainties in the global market and rising business costs, price growth and rental stabilization was observed in the general industrial sector.
- 1H 2011 total investment sales increased marginally by 0.36% to \$14.41 billion. The market experienced a polarisation between public and private sector, where total investment sales in the public sector increased by 23.77% whilst the private sector decreased by 33.44%.
- The number of properties put up for auctions in 1H 2011 decreased by 2.7% from 2H 2010. 1H 2011 saw the sale of more industrial and HDB shops/shophouses compared to 2H 2010.

# RESIDENTIAL PROPERTY MARKET

Developers' new sales increased 26%, registering 4,325 uncompleted units in 2Q 2011. Demand for mass market projects is still fairly strong accounting for more than 60% of launches and sales activities islandwide. Price increases moderated to 2% while rent increased marginally at 1.1%. Meanwhile, prices of resale HDB flats rose 3.1%, after slowing down for three consecutive quarters.

## **Private Residential Sector**

### **Buoyant Activity in Mass Market New Sales and Launches**

Primary market turned buoyant in 2Q 2011, registering 4,325 uncompleted units sold by developers. The 26% q-o-q increase brought total homes sold by developers to 7,755 units in 1H 2011, 7% lower than that in 1H 2010. On the supply side, developers also geared up launch activities, recording 4,802 units, the highest number of units launched since 3Q 2009.

The bulk of primary market sales activities were generated in Outside Central Region, which accounted for 67% of launches and 63% of primary transactions in 2Q 2011. The strong HDB resale market coupled with low interest rates provided the base for strong demand for these mass market homes. Supply led demand where homebuyers were drawn to new projects launched in particular those near MRT and retail malls.

Amidst uncertainties on the sovereign debt situation in US and EU region, buying sentiment for high end property segment were fairly muted. In 2Q 2011, the Core Central Region saw a drop of 25% in the number of new launches and a marginal fall by 2% in new sales q-o-q. Despite positive economic growth and strong domestic market fundamentals, high-end market remained quiet since the beginning of 2011. This reflects the cautious investment climate as investors watches the development in EU and US. A deterioration of the already fragile situation may lead to a double dip recession in the worst case scenario, reversing the positive economic momentum built up over the last few quarters.



## Chinese remain Top Foreign Buyers

Chinese buyers still took the biggest share in property transactions by foreigners, comprising Singapore Permanent Residents (PR) and Non Permanent Residents (NPR). Homebuyers from China accounted for 26% of non-citizen property transactions, followed by Malaysia (20%) and Indonesia (16%) in 2Q 2011.

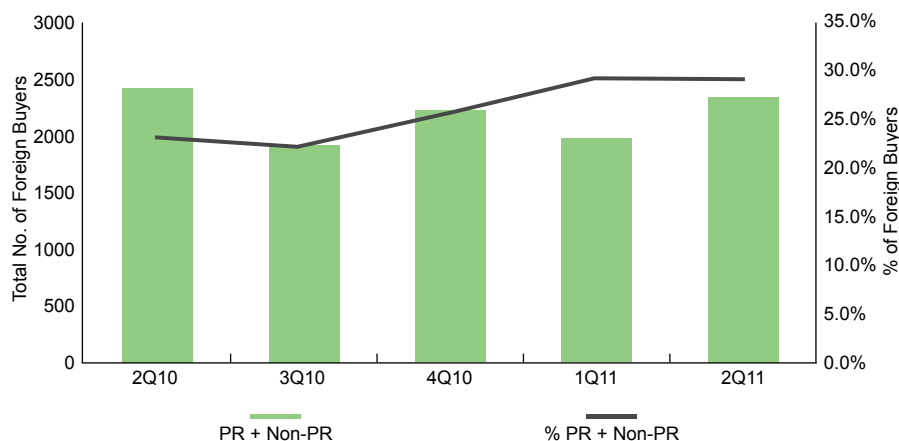
The fast increasing number of new millionaires in China is a reflection of the country's rapid economic growth. These newly minted millionaires looked overseas for investment opportunities amidst the clamping down of local property market by the Chinese government. According to Forbes Asia, the number of billionaires in China grew to 115 in 2011, compared to 64 last year, and real estate was among the top three of the sources of wealth for the Chinese tycoons.

Overall, the proportion of transactions by foreigners in 2Q 2011 remained unchanged at 29.5%, comparable to that in 1Q 2011. Foreigners mainly bought into district 15, 16 and prime districts 9, 10, 11, amounted to some 40-45% of property transactions in these areas.

## Further Moderation in Price Increase

As at 2Q 2011, the residential price s continue to increase at a decreasing rate at 2% q-o-q marking it as the 7th consecutive month of slowdown. Albeit a slower pace in the overall market, prices of landed properties increased the most at 3.6% q-o-q, compared to 1.4% in the non-landed

Chart 1  
**Percentage of Foreign Homebuyers (PR and NPR) in 2Q 2011 (Landed and Non-Landed Properties)**

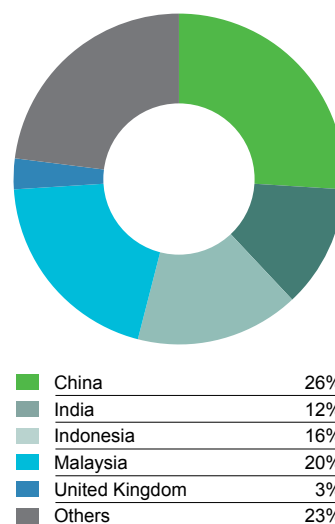


Source: REALIS, Knight Frank Research

segment. The rate of price increase for the non landed mid-end and mass market segment were marginally lower q-o-q, registering a growth of 1.1% and 1.7% respectively. On the contrary, the high-end market treaded marginally higher at 1.6%, slightly higher than that of 1.1% in 1Q 2011.

On the back of a lower y-o-y economic growth in 2Q 2011 at 0.5%, the slowdown in property prices was largely in part attributed to the government's two-pronged strategy of adjusting both supply and demand levers. In addition to the few rounds of cooling measures implemented over the last two years, the government also ramped up land supply through the Government Land Sales Programme. The uncertainties in the global economic situation and local inflationary concerns had caused some trepidation in the housing market, as evident by the weakened sentiment index released by the Real Estate Developers' Association of Singapore (Redas) and the National University of Singapore (NUS) in 2Q 2011.

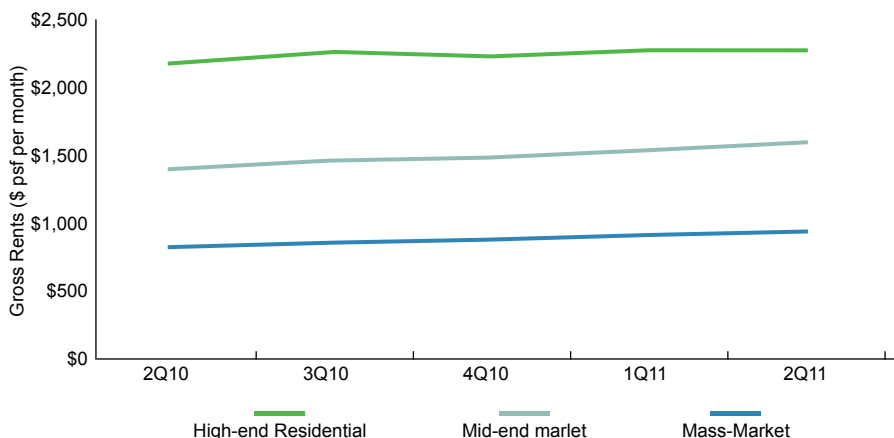
Chart 2  
**Percentage of Foreign Homebuyers (PR&NPR) by Nationalities in 2Q 2011 (Landed and Non-Landed Private Residential Properties)**



Source: REALIS, Knight Frank Research

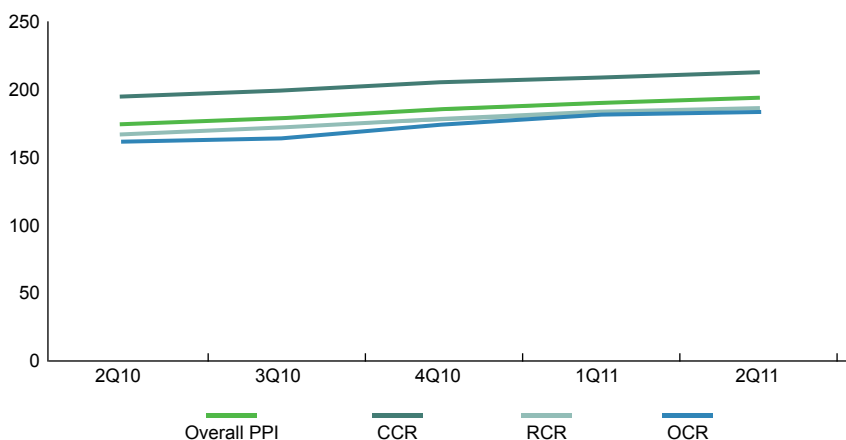
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Chart 3  
**Prices of Private Properties by Segment**



Source: REALIS, Knight Frank Research

Chart 4  
**URA Property Price Index 2Q 2011**



Source: REALIS, Knight Frank Research

According to Knight Frank figures, computed based on our in-house basket of properties in high-end, mid-end and mass market, prices of luxury properties fell 0.2% q-o-q, averaging \$2,259 psf in 2Q 2011. Over the same period, mass properties were transacted at \$959psf on average, or 3.2% q-o-q increase. In mid-market areas such as East Coast and Bukit Timah, houses prices averaged \$1,562psf, a rise of 3.1% q-o-q.

## Minimal Rental Growth

URA quarterly data release showed moderate rental increase across the market, rent in Core Central Region and Rest of Central Region inched up marginally by 0.9% q-o-q, while that in Outside Central Region increased 1.5% in 2Q 2011. Overall, rental for non-landed properties increased 1.1% in 2Q 2011 similar to the last quarter. Rental growth appears lackluster compared to price growth.

The slower rental growth reflects bigger rental pool arising from the completion of new developments over the recent period. Whilst demand for rental units is still strong, prospective tenants have more options leading to a mild pressure on rents. Developments are getting "bigger" as more smaller units were able to be condensed into them leading to greater rental competition when the project is completed.

Knight Frank in-house data shows a dip in rental in mid and mass market, 3.3% and 1.4% respectively. This is in contrast with 6.2% and 3.1% increase in 1Q 2011. High-end market performed better with 6.5% increase in 2Q 2011, significantly higher than 0.4% increase in 1Q 2011. The rise was due to higher rental in prime properties such as The Orchard Residences, The Tate Residences, Ardmore II and the completion of Grange Infinite.



## Public Housing Sector

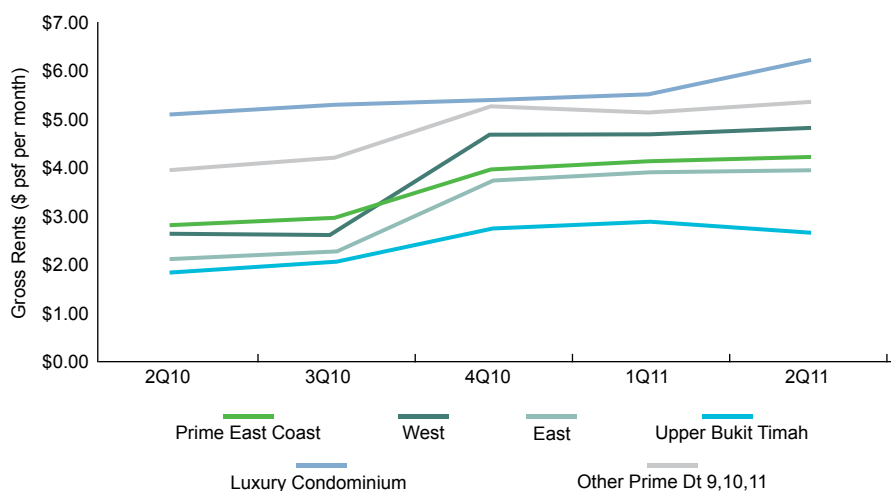
### More Active Resale Market despite Government Intervention

Prices and transaction volume of resale HDB flats rose at faster pace for the first time after three-quarter consecutive slowdown. HDB's Resale Price Index increased 3.1% q-o-q, much higher than the 1.6% increase in 1Q 2011. Resale transactions also increased by some 6% q-o-q, registering 6,581 cases in 2Q 2011.

In 2Q 2011, HDB stopped disclosing COV figures for nationwide and individual estates, on the basis that the overall COV numbers do not reflect the actual market situation as they tend to vary significant depending on location and flat types. Nonetheless, the average COV was \$21,000 in 1Q2011.

Although the new Minister of National Development has ramped up supply of HDB flats significantly via combining BTO launches and releasing more balance units in order to calm the market, these efforts might take years to show effect since new supply will only be completed in 3 to 4 years. We expect new supply to slow down in the future as demand is eased gradually with these new completions.

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



Source: REALIS, Knight Frank Research

## Outlook

### Moving towards Stabilized Private Property Market

We do not foresee sales activity to reach the high level seen in April and May but will stabilize at 1,100 to 1,300 units per month for the rest of the year, bringing 2011 sales to approximately 15,500 units.

The market is at the early stage of stabilizing as evident in the sales volume and price movement. Whilst, the low interest rate environment is driving buying interest and demand, with the current uncertainty of the external economic environment from the US and EU region, it is unlikely that the government will announce the 5th round of cooling measure in the next six months.

Moving forward, we expect residential market to stabilize at 1-2% q-o-q over the next two quarters, translating into an average year-on-year increase of 8-10% for the whole 2011, compared to an average year-on-year increase of 17.6% in 2010. The government has recently focused much on rationalizing demand for public housing market since this is the fundamental of Singapore housing.

This however, does not mean private housing segment is left unmonitored, as evident by the continuous effort in increasing housing supply. We are confident that the authority will closely watch property market to prevent an overheating situation. We believe the strong fundamentals will support healthy growth of Singapore property market.

### Supply to Catch Up with Demand in Public Housing Market

The government is monitoring close both the primary and secondary HDB market for signs of overheating price trends. Policy risk for the public housing is very real as the HDB income ceiling is still under review. Notwithstanding the current ramped up in new HDB supply to meet short term strong demand, we expect new supply to slow down in the future as demand is eased gradually. As interest rates are unlikely to increase this year, we expect resale prices of HDB flats to continue trending upwards at 2-3% q-o-q for the rest of the year.

# RETAIL PROPERTY MARKET

Consumer confidence and visitor arrivals are positive but sentiments are growing cautious. Island wide retail rents remained flat with slight drop in prime retail rents. Overall, retail market is still positive with stable island wide retail rents. Despite concerns on significant upcoming supply in Suburban region, rents in this region are still expected to grow by 1% - 3% for the rest of the year supported by current stable domestic consumption and higher expected income.

## Market Pulse

### Retail Suburban Haven

Residents are looking to enjoy greater variety of retail facilities within minutes to where they live as the retail market welcomes more suburban malls. In this quarter, Bedok Point and Clementi Mall officially opened with 98% and 100% of its retail space leased out respectively.

Retail spaces in Bedok Point spans across five storeys and occupies about 80,985 sq ft of net lettable area, of which 40% of the tenants are F&B operators. At the other end of Singapore, we see an addition of retail space of about 191,000 sq ft retail floor area from Clementi Mall which constitutes about 135 new retail shops.

In the coming years, more suburban malls will be opened in various parts of Singapore. Residents in the West will be able to

enjoy more entertainment facilities at the refurbished JCUBE (204,000 sq ft of net lettable area) and a new family and lifestyle mall with gross floor area estimated to be 818,000 sq ft – “Jem” in Jurong Lake District developed by Lendlease.

Meanwhile, those who stay in the North-East and East will also enjoy new retail facilities at Changi City Point which will be completed later half this year and in Punggol Walk/ Punggol Central, a consortium of Fraser Centrepoint Limited, Far East Organisation and Sekisui house will develop a 365,000 sq ft retail mall.

## Retail Facilities within Commercial Hub

While activities in retail market during the last few years concentrated in the Central Area where new malls were opened along Orchard Road or Marina area, going forth we are likely to see a shift in activities with more actions in various commercial hubs.

There will be greater retail facilities amongst commercial hubs outside the CBD area following government's plans in decentralising the commercial areas. Changi City Point and Alexandra Retail Centre are some retail facilities serving the needs of the peripheral office crowd and also immediate resident catchment.

More importantly, we will be expecting more retail facilities in areas such as Jurong Lake District and Paya Lebar Central. In the second quarter, two mixed development sites at these prominent growth regions were awarded at record price with numerous bids. This reflects the potential of these upcoming growth regions.



The 80%-office / 20% -office or retail development with maximum gross floor area of about 670,000 sq ft at Paya Lebar Central drew 10 bids and was awarded at \$872 per psf ppr while the 40%-office/ 60%-retail development with maximum gross floor area of about 975,000 sq ft site at Jurong Lake District achieved record prices at \$1,012 per psft ppr.

In the next quarter, we will be expecting another parcel at Paya Lebar Central (Sims Ave/Tanjong Katong Road) of maximum gross floor area of 935,000 sq ft for retail/ office/hotel use to be release to the market. Going forth, while the supply in Orchard or Downtown area is stabilising, retail activities are likely to germinate and sprout amongst the upcoming commercial hubs

## Consumer Sentiments

### Increased Consumer Confidence leads to Higher Retail Sales

Latest Retail Sales Index (RSI), excluding Motor Vehicles in March, April and May shows positive year-on-year growth of 5.0%, 7.8% and 6.0% respectively. The higher retail sales index in the second quarter is largely propelled by higher wages and buoyant visitor arrivals. The 2011 Great Singapore Sale also kicked off with a good start as expenditure from Mastercard holders during the first weekend (May 27 – 29) increased 66% as compared to last year. The increased consumer confidence also enabled more shopping via websites leading to higher online expenditure.

However with the ongoing financial uncertainty in Europe and financial debt crisis in United States, consumers are growing more cautious. As shown, the MasterCard Worldwide Index of Consumer Confidence on consumers' outlook and views of indicators such as economic growth, income level and employment in 2H 2011 reflects a slight drop from 86.1 to 77.9.

## High Visitor Arrivals

Achieving about 1.07 million, 1.1 million and 1.05 million visitors in March, April and May this year, the tourism sector continued to stay buoyant. Largely due to the opening of the two integrated resorts, the stellar growth in the visitor arrivals will bring about higher tourist revenue to achieve STB's 2011 target ranging between S\$22 – S\$24 billion.

Despite upcoming attractions such as Legoland Malaysia and Shanghai Disney Resort, tourism sector in Singapore is likely to stay competitive with the inclusion of attractions such as the Marine the Gardens by the Bay at Marina Bay, River Safari in Mandai, Marine Life Park at Resorts World Sentosa and the refurbishment at Haw Par Villa.

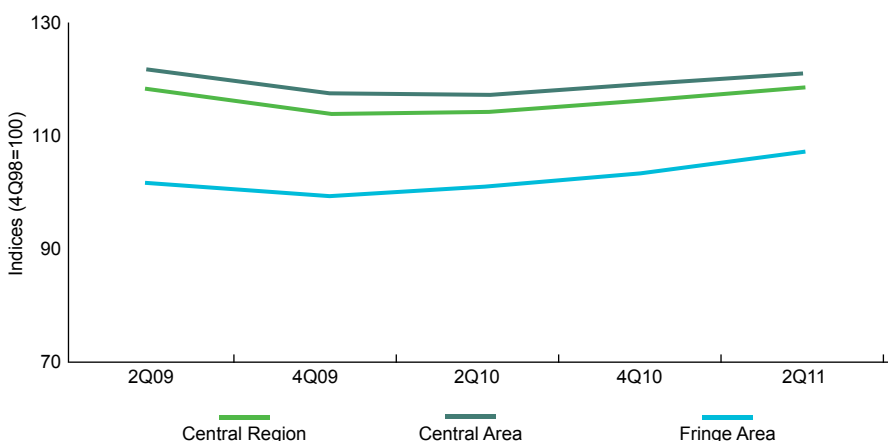
## 2Q 2011 Retail Rents

### URA Retail Rental Index for Central Region inched up by 0.8% quarter-on-quarter

Despite some disparity in rentals trends for different malls within the Central Area, overall rentals in the Central Region performed relatively positive with slight quarter-on-quarter increase by 0.8%, 0.7% and 1.4% for URA Retail Rental Index in Central Region, Central Area and Fringe area respectively. Since 2Q 2010, the retail market has been picking up following the positive turnaround in the economy and stronger business sentiments.

Nevertheless, retail rents are still facing some resistance in huge upside due to a combination of factors such as increased manpower woes for retailers, ongoing adjustment to the supply added in Orchard area in 2009/2010, and potential decrease in revenue for some retailers following the increased online competition.

Chart 1  
URA Retail Rental Index



Source: Knight Frank Research

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Table 1  
Knight Frank Second Quarter 2011 Prime Retail Rents

2Q2011	Monthly Gross Rents for prime spaces* ( \$/psf)
Islandwide	S\$ 28.91
Orchard (Central)	S\$ 40.19
Orchard (Fringe)	S\$ 22.21
Marina Centre, City Hall, Bugis	S\$ 29.64
City Fringe	S\$ 20.43
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

## Mixed Bag of Performance for Prime Retail Rents

Overall, the island wide prime retail rents this quarter remained relatively flat with a slight drop to \$28.91; this is largely attributed to the softening of prime rents in Orchard road which fell by 3.9% to \$40.19. Closer examination in Orchard's retail basket shows a mixed bag of performance where faltering demand and hence, lower retail rents for prime spaces in older malls lead to a slight drop in Orchard road prime rents. On the whole, the retail market, especially in Orchard Region, is still experiencing flight to newer malls though rents in Orchard Road shows signs of stabilising.

Movement in suburban prime retail rents is still positive with a marginal quarter-on-quarter increase of 0.7% to \$32.07. The subdued growth may be in view of the new malls completed in the recent quarters.

## 2Q 2011 Retail Occupancy

### Occupancy Rates Improved by 0.3% to 94.2%

Occupancy rates this quarter improved to 94.2% following a drop in island wide total

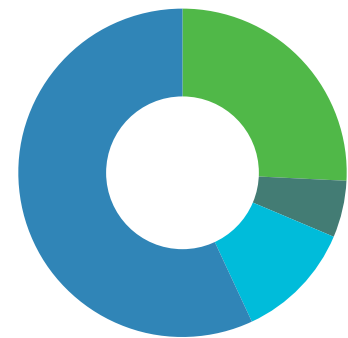
retail supply by about 118,400 sq ft coupled with an increased in the island wide total demand of about 21,500 sq ft. The drop in retail supply is largely due to demolition in the Fringe Area where we see a decrease in supply by about 64,600 sq ft. Meanwhile, retail spaces in suburban region remain popular as we see the greatest increase in demand of about 96,875 sq ft in that region.

## Potential Retail Supply

As of 2Q 2011, there will be about 3.99 million sq ft of upcoming retail floor area of which 2.27 million sq ft of retail floor area are in the suburban areas (Outside Central Region) with a substantial amount of retail facilities in the West such as JCube, a retail development (Jem) at Jurong Gateway Road and a 25-storey retail cum office development at Jurong Gateway Road by CapitaLand & CapitaMall Trust.

There will also be a considerable amount of 1.03 million sq ft of retail floor area in the City Fringe due to refurbishment of malls such as Chinatown Point, 112 Katong (Former Katong Mall) and greenfield site such as SportsHub and a Government Land Sale site at Paya Lebar/ Euno Road 8. Remaining 690,000 sq ft of potential supply will be in Orchard Road, Downtown core and Rest of Central Area.

Chart 2  
Potential Retail Supply as at 2Q 2011



City Fringe	25.8%
Downtown Core	5.6%
Orchard & Rest of Central Area	11.7%
Outside Central Region (Suburbs)	57.0%

Source: Knight Frank Research

## Outlook

Overall, we will be expecting some changes in the retail market. Firstly, the addition in Circle line is likely to alter the traffic flow of several retail destinations especially those in south-west of Singapore. Secondly, the shift in new supply from the Central Area (new malls completed in 2009/2010) to the suburban region the next few years may have an impact on the rents in the suburbs. Thirdly, retailers may have to re-evaluate their business models in view of the increasing manpower costs, competition. Last but not least, with the exuberant visitor arrivals, malls in Central Area may undergo some transformation so as to tap on this market. However, such changes are not going to be immediate and will tend to take place in the mid to long term.

Going forth in the short term, island wide retail rents are likely to remain flat in the next few quarters. Despite the upcoming supply, suburban retail rents are expected to grow by 1% - 3% for the rest of the year supported by current stable domestic consumption and higher expected income.



# OFFICE PROPERTY MARKET

Office rental growth continued to trend upwards in 2Q 2011 albeit at a slower pace. Rents of Grade A office space in Raffles Place and Shenton Way / Robinson Road / Tanjong Pagar saw an increase q-o-q by some 7% and 2% respectively.

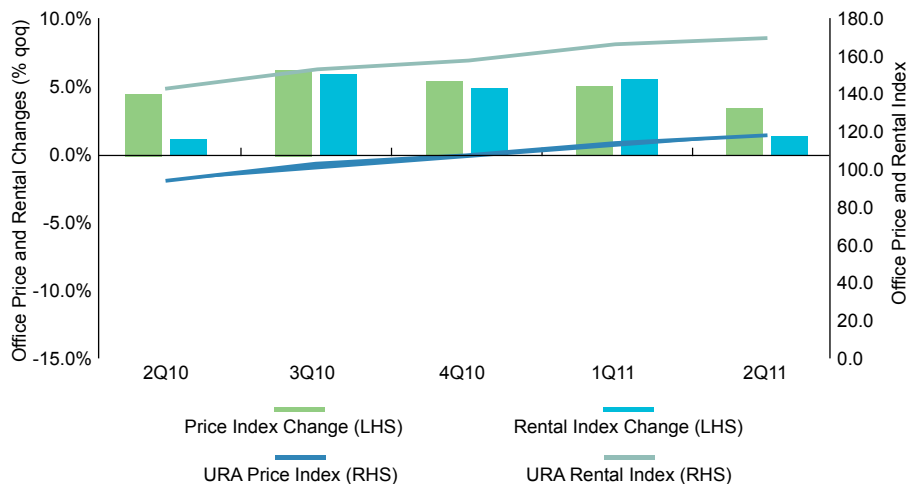
growth of financial services. Strong growth in international visitor arrivals of 3.2 million visitors, a 14 percent increase y-o-y led to outstanding performance for gazette hotels. Tourist arrivals grew for six consecutive quarters at double digit growth rates. Singapore is still on track to register modest growth in 2011 lead by domestic factors such as expected increase in Biomedical manufacturing output, as well as still growing financial intermediation and insurance clusters. Tourism related clusters should still be strong supported by the Integrated Resorts and upcoming events such as the Formula One Grand Prix.

Nonetheless, significant downside risks to growth persist arising from a possible double dip recession in the US and potential contagion from sovereign debt concerns in the EU. The recent downgrade in the US long term sovereign debt ratings lead to greater volatility in the financial market and increased uncertainty. The mix global and

## Marginal Growth in Singapore Economy

The Singapore economy grew marginally by 0.9% y-o-y in 2Q 2011, a stark comparison from the 9.3% growth in the previous quarter. The Financial Services and Hotel and Restaurant sectors led the pack growing by some 10.0% y-o-y and 6.4% y-o-y respectively. The increase in consumer and corporate lending activities underpinned the

Chart 1  
Islandwide Office Price and Rental Index



Source: Urban Redevelopment Authority, Knight Frank Research

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domestic economic outlook lead the Ministry of Trade and Industry to revise the GDP forecast for 2011 from 5%-7% to 5%-6%.

## Moderation in Leasing Momentum

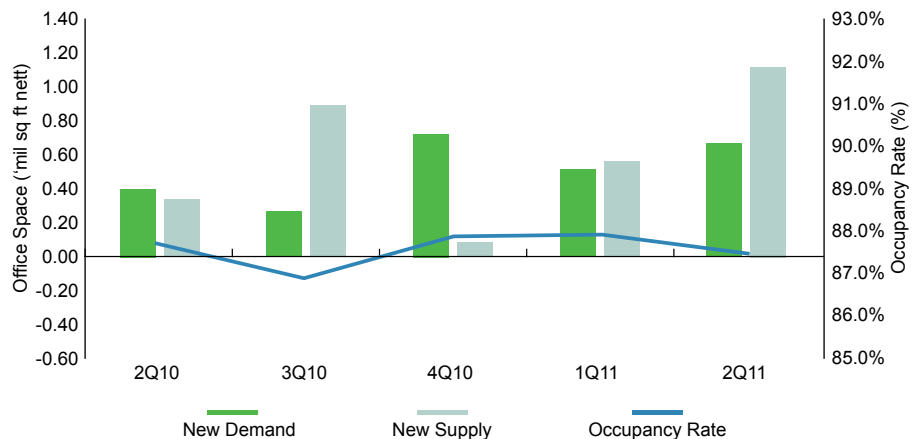
Total islandwide new demand in 2Q 2011 saw a healthy take-up of 667,400 sq ft, an increase of some 25% q-o-q- although the amount of increase was outstripped by a substantial increase in supply within the same period. Whilst outlook remains positive and healthy for office sector, occupancy rate fell marginally to 87.5% from 87.9% in the preceding quarter. Overall net new office spaces completed amounted to 1,130,200 sq ft, which mostly originated from the completion of Asia Square Tower 1 and the subsequent phase completion of the Ocean Financial Centre situated at the Downtown Core. Excluding Downtown Core, overall office stock shrank marginally by some 118,400 sq ft islandwide or 0.15% of overall stock.

Office activities at the Downtown Core were most active as completed new office developments continue their search for tenants. Asia Square Tower 1 accounting for some 1.26 million sq ft of office space is reported to be 62% taken up with the remaining 20% under negotiation. 137 Market Street, formerly known as East Asia Building has about 35% of the 43,000 sq ft of office space leased or under offer to potential tenants. OUE Bayfront managed to secured tenants taking up 77% of the building's 387,000 sq ft. Competition for tenants heats up amidst a rising rental environment as the flight to quality movement continues. For example, Citi Singapore signed a 10-year lease for more than 250,000 sq ft or eight floors at Asia Square Tower 1. They are expected to vacate from Capital Square, Centennial and Millenia Towers from end 2012 through 2013.

Orchard Road's office occupancy continued its upward trend since 2Q 2010 where

Chart 2

### Islandwide New Demand, New Supply and Occupancy (Private and Public Sectors)



Source: Urban Redevelopment Authority, Knight Frank Research

occupancy is at 89.7% in 2Q 2011. The improvement is attributed in part due to the decrease in the total office space by 10,700 sq ft in 2Q 2011. In fact, office space in Orchard Road has shrunk about 560,000 sq ft for the past decade while those at Downtown Core had increased by 6,400,000 sq ft.

In 2Q 2011, offices at Fringe Area within the Central Region continued to enjoy the highest occupancy rate of 92.6% compared to other areas in Singapore. The modest 1.1% improvement in occupancy rate can be attributed in part to the decrease in office stock which amounted to 86,000 sq ft with a net positive demand of 53,900 sq ft seen. As office rentals in Raffles Place and Downtown Core heat up, fringe area whose rentals are generally lower may see new demand from tenants whose operations need not be at prime Raffles Place and Downtown Core.

Office occupancy rate in the suburban areas saw marked improvement of 1.7% from the previous quarter to 86.6% in 2Q 2011, the five consecutive quarter of increase. This can be attributed to rising rentals in the Central Area as attention is turned towards areas such as Jurong, Paya Lebar and Tampines Regional Centres. New suburban demand registered at 64,600 sq ft, while suburban supply contracted by 54,000 sq ft.

## Healthy Demand from MNCs in Financial Services Sector

Office leasing momentum continues to remain slow albeit healthy level of demand for office space is still observed from multinational companies (MNCs) in the second quarter of 2011. Generally, there is an air of caution from the ongoing sovereign debt crisis at Europe, a double dip recessionary concern for US and potential slowdown in China. Nonetheless, companies in the financial services sector continue to see growth potential in Asia.

In 2Q 2011, Raffles Place Grade A office monthly rentals increased although not evenly across the different categories. Newly completed Super Grade A offices jumped by some 20 - 23% q-o-q averaging at about \$13.20 psf while traditional Grade A Raffles Place offices increased by some 6 - 7% q-o-q averaging about \$10.50 psf. The overall levels are however, still some 40% off the historical peak seen in 2008. Notably, some office transactions in the Super Grade A office spaces involved multiple smaller units segregated on a single floor.



Similar to Raffles Place, average monthly rent of office spaces at Shenton Way/Robinson Road/Tanjong Pagar also saw a marginal rise of 1.5 to 9.0% q-o-q at about \$7.00 psf. Older office buildings within the same locality are narrowing the rental gap with the Grade A buildings as tenants who need to be in CBD compromise as they are unwilling to bear the higher Grade A rentals.

Overall rentals of Grade A offices in Orchard Road office spaces increase by 4.0 – 5.0% q-o-q, averaging at \$9.70 psf. Office rents in Suntec/Marina/City Hall exhibit slight weakness as landlords embark on finding new tenants to replace outgoing ones, competing head on with new supply in Raffles Place. In 2Q 2011, Grade A office spaces in Suntec/Marina/City Hall were generally leased at an average of about \$9.60 psf.

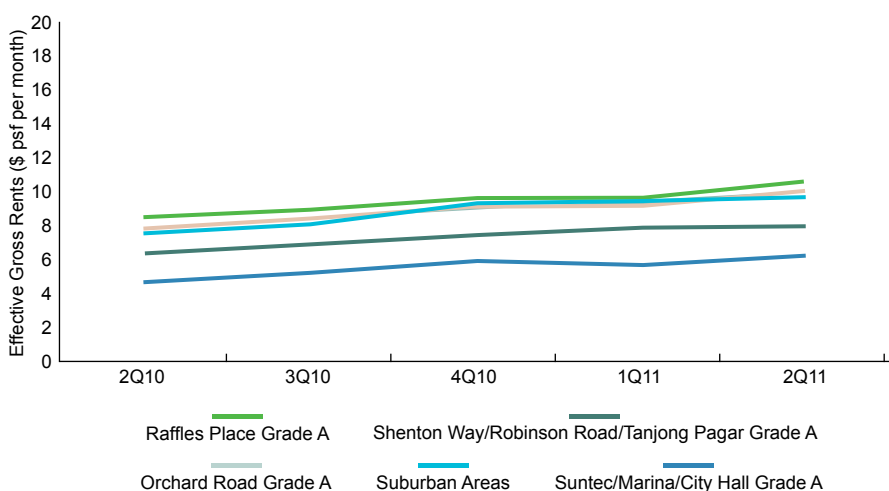
The effects of rising rents in the CBD followed through to the suburban region as average rents of office spaces increased by some 5.0 to 6.0% at some \$6.20 psf. The uptick in 2Q 2011 reversed the drop in rental seen in 1Q2011 as tenants turned their attention to suburban locations in view of fast rising rents in the CBD. However, the rate of increase is unlikely to be as high as their CBD counterparts as qualifying tenants may choose cheaper options such as office like business spaces in High Tech Factories or Business Parks which limits the rent growth rate for suburban offices.

## Outlook

Although the economy is still expected to register a modest growth rate for 2011, the outlook for Singapore has become less positive following the aftermath from Japan's earthquake, higher and new challenges from US and EU.

Notwithstanding the less than optimistic global outlook, domestic consumption is likely to remain strong and stable as the population has a net overall positive household balance sheet. Healthy visitor inflows continue to bode well for tourism related service sectors. Manufacturing is expected to turn in

Chart 3  
**Average Effective Rentals**



Source: Knight Frank Research

Table 1  
**Effective Monthly Rentals in 2Q 2011**

Location	Effective Monthly Gross Rentals (psf)
<b>CBD (Grade A)</b>	
Raffles Place	S\$ 10.50 - S\$ 13.50
Suntec / Marina Centre / City Hall	S\$ 9.00 - S\$ 10.25
Shenton Way / Robinson Road	S\$ 7.55 - S\$ 8.25
Orchard Road	S\$ 9.20 - S\$ 10.20
<b>Non-CBD</b>	
Beach Road / Middle Road	S\$ 7.10 - S\$ 7.70
Suburban (North)	S\$ 6.85 - S\$ 7.25
Suburban (East)	S\$ 4.80 - S\$ 5.20
Suburban (West)	S\$ 6.15 - S\$ 6.70

Source: Knight Frank Research

commendable numbers as the biomedical manufacturing output is expected to increase. Overall, the government expect the economy to grow by 5.0 to 6.0% in 2011.

The outlook of the business expectation for office space users remained positive for the next 6 months, which translates into positive outlook for business expansion in terms of employment and operating receipts.

However, companies are expected to become more selective when hiring foreign talents and expansion arising from concerns over the economic situation in US and EU.

Moving forward, we expect CBD rental increase to slow down at a lower level averaging some 5.0% for the rest of 2011.

# INDUSTRIAL PROPERTY MARKET

Uncertainties in the global market and rising business costs have resulted in slow economic growth and a year-on-year contraction in Singapore’s manufacturing sector. Despite that, price growth and rental stabilization was observed in the general industrial sector.

causing a decline in electronics output. The precision engineering cluster on the other hand grew by 34% y-o-y driven by a higher export output of semiconductor equipment.

## Slow Economic Growth

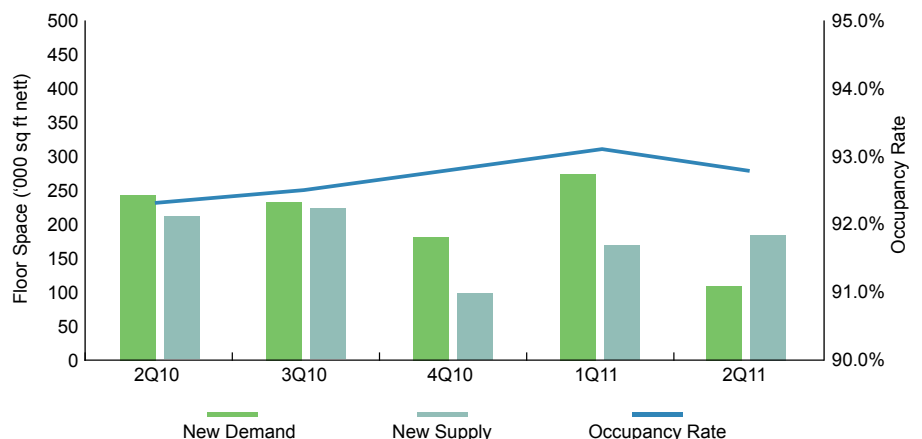
2Q 2011 saw a slow growth in the general economy. Overall Gross Domestic Product (GDP) growth grew by 0.9% on a year-on-year (y-o-y) basis as compared to 9.3% in the previous quarter. On the manufacturing side, the sector contracted by 5.9% y-o-y in 2Q 2011. Apart from a decline in the biomedical manufacturing output, global demand for semiconductor chips also eased

## Sustained High Occupancy in the Industrial Sector

In the real estate aspect, industrial properties saw a marginal 0.2% decline in occupancy rates to achieve 92.9% in 2Q 2011.

Island-wide supply of industrial factory space increased by 1.98 Mil sqf with almost half of it contributed by the developments in the Western region of Singapore. The Central and East regions saw an overall decline in industrial land supply. At the same time, new demand of factory space increased by 1.18 Mil sqf island-wide with the central and

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



Source: Urban Redevelopment Authority, Knight Frank Research



western region making up 58% and 21% of the new space demand respectively.

Breaking this down further into the specific industrial types, Single-User factory space was once again the largest contributor to overall new factory supply with 1.69 Mil sqf of space making up 85% of overall factory supply in 2Q 2011. The bulk of new Single-User factory space stems from the West region such as Jurong, Penjuru and Tuas. At the same time, new demand for Single-User factory space saw its first decline since 3Q 2006. This decline of 107,600 sqf was observed in all except the Western region. Nevertheless, occupancy of Single-User factory space remained at a healthy 94.7%.

While demand for Multi-User factory space remained the same as 1Q 2011, new supply decreased by half with only 420,000 sqf of new space this quarter. As a result, Multi-User factory space saw an increase in occupancy to hit 90.6%, an all time high since 2009.

Business Parks on the other hand saw a decline in new supply and increase in new demand achieving an occupancy rate of 80.8%. This trend follows through with an increase in demand and decrease in new supply of Warehouse space.

## Rental Stabilization and Price Growth

Conventional factory space rents have improved by a marginal 1.87% quarter-on-quarter (q-o-q) to reach an average of \$1.50 psf while 2Q 2011 rents for High-Spec factory space remained flat. In contrast, Business Park space is onward to recovery after a 5.8% q-o-q dip in 1Q 2011 with rising rents of conventional office space pushing cost sensitive companies to Business Parks.

On the buying front, demand has remained high with industrial prices achieving a collective 5.5% q-o-q and 31.8% y-o-y growth. This retained growth despite slow performance in the general economy stems from strong interest of capital rich investors

Table 1 Rentals of Sample Factory/Warehouse (Upper Floors) and Business Park Space in 2Q 2011		
Locality	Monthly Gross Rentals (psf)	Capital Values (psf)
<b>Conventional Industrial Space</b>		
MacPherson / Paya Lebar	S\$ 1.65 – S\$ 1.97	S\$216 – S\$431
Kaki Bukit	S\$ 1.36 – S\$ 1.80	S\$186 – S\$340 (60-year leasehold)
Admiralty	S\$ 1.05 – S\$ 1.33	S\$148 – S\$265 (60-year leasehold)
<b>High-tech Factory Space</b>		
Islandwide	S\$ 3.18 – S\$ 3.62	N.A.
<b>Business Park Space</b>		
Islandwide	S\$ 3.77 – S\$ 4.17	N.A.

Source: Knight Frank Research

that have traditionally invested in residential units. Simultaneously, Industrial shoe box developments have made the industrial sector more affordable for investors. There were a total of 336 strata titled transactions in 2Q 2011 with capital values of conventional factory space achieving an average of \$264psf.

On the supply side, three industrial government land sale sites were sold namely; two Business 1 sites at Irving Place and Woodlands Avenue 12 and a Business 2 site at Tuas View Square. Both Business 1 sites have a lease term of 60 years and were awarded to developers.

Oxley Holdings competed against 14 other bidders and was awarded the Irving Place site with a bid of \$43.39 Mil. This comes down to \$343 psf per plot ratio for the site with a land area of 36,000 sqf and 3.5 plot ratio.

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

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.

JTC Corporation has divested over 3.2 Mil sqf of industrial properties at a total price of \$688.6 Mil. 11 blocks of flatted factories and amenity centres were awarded to MIT 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.

## Outlook

GDP growth for 2011 was revised to 5% - 6% by MTI. This accounts for domestic demand growth in emerging Asia and global risks such as Japan's recovery and the growing debt crises in US and Europe. Singapore's export driven manufacturing sector may also be affected by a slowdown in developed economies as reflected by weak Purchasing Manager's Index in US, UK and Asia.

Demand for industrial space is expected to remain stable without many company expansions. Capital values of traditional industrial space are expected to increase and rents to remain stable. In light of demand for industrial units by investors, land sale sites will continue to be popular amongst developers.

# INVESTMENT SALES PROPERTY MARKET

Total investment sales for 1H 2011 increased marginally by 0.36% to \$14.41 billion. The market experienced a polarisation between public and private sector, where total investment sales in the public sector increased by 23.77% whilst the private sector decreased by 33.44%.

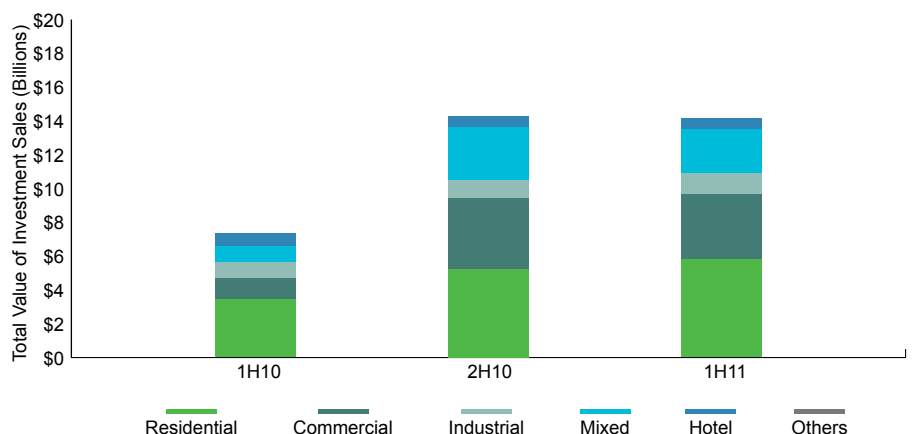
speculators from entering the market and created a temporary dampening effect on residential demand. In May, Singapore held its general election. Whilst the ruling party won by a majority margin, it also saw a change of leadership in the Ministry of National Development (MND). The government pledged to review housing policies tackling housing affordability issues.

Total residential investment transaction volume and sales fell as developers become cautious over the potential oversupply of units in the market. Total investment sales for 1H 2011 decreased by 0.67% to \$14.41 billion and the market experienced a polarisation between public and private transactions. The Government Land Sale (GLS) programme released a number of prime sites across all sectors inflating the total value of transactions despite lesser sites being sold.

## Total Investment Sales

The 1H 2011 saw significant regulatory related changes which had affected the investment sales climate. It started in January when the 4th round of cooling measures was imposed on the residential sector. The measures served to deter

Chart 1  
**Total Investment Sales**



Source: Knight Frank Research

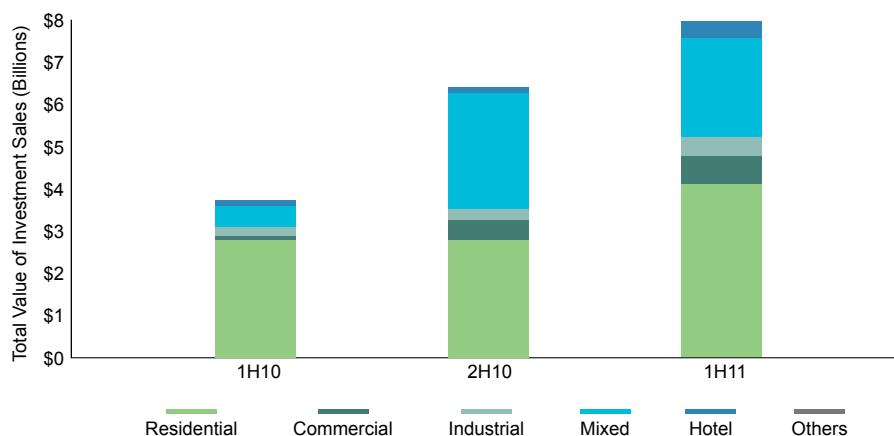


## Healthy Performance in the Public Sector

Total investment sales in the public sector increased by 23.77% in 1H 2011. GLS sites released into the market were received with varied responses. The residential sector represented 53% of transactional value in 1H 2011, up from 44% in 2H 2010. Notable transactions include Bishan Street 14 site for \$550.1 million by Capitaland and the Bendemeer Road/Whampoa East site for \$543 million by United Engineers. These sites are located in established areas and are closed to MRT stations. Meanwhile, less central residential sites such as the Choa Chu Kang/Phoenix Road, Flora Drive and West Coast sites to name a few, received top bids which fell below analysts' expectations.

The commercial, industrial and hotel sectors also saw improved performances. Non-residential GLS sites performed well because (i) the sites were in desirable locations and/or (ii) more developers are diverting their attention to the handful of sites available. In the commercial sector, there was only one site (Paya Lebar/Eunos Road 8) transacted. The site was highly contested as it is located in the eastern gateway to the CBD where the government is planning to spruce up the area as a complementary commercial hub to the CBD.

Chart 2  
Public Property Investment Sales



Source: Knight Frank Research

The industrial sector saw a significant increase in land values for the sites sold. These sites received higher than expected bids and several bidders in some tenders. Other than the fact that the industrial sites released were located in central areas and/or close to the MRT station, optimism in the industrial sector by developers and investors are seen diverting into strata industrial properties underpinned by strong growth of the manufacturing industry in Singapore. There were three mixed use site transactions in 1H 2011. Despite the 17.0% drop in total value of transactions, the

tenders received for the individual sites fared well. The drop in total value of transactions for mixed use sites is a result of the sites being in suburban areas (whereas two of the mixed used sites in 2H 2010 were located within the central area). Below is a table of a few transactions which received much attention from the press.

The performance of the hotel sector improved dramatically by a whopping 304.0% in total value transacted. Developers were looking to partake in the hotel sector arising from the strong tourist arrivals and growing MICE travellers who are driving up

Table 1  
Notable Industrial and Mixed Use Site Transactions

Site	Top Bid	Top Bid (psf/ppr)	Remarks
<b>Industrial</b>			
Woodlands Avenue 12	\$84.24 million	\$152	Nearby site sold for \$75 psf ppr in April 2010
Irving Place	\$43.38 million	\$343	Transacted price is in the range of residential mass market land; near Tai Seng MRT.
Kaki Bukit Road 4	\$41.40 million	\$157	18 bidders
<b>Mixed Use</b>			
Punggol Centra I/ Punggol Walk	\$1.02 billion	\$753	Ahead of analysts' expectations
Hillview Avenue	\$298.8 million	\$673	Ahead of analysts' expectations
Boon Lay Way	\$969.0 million	\$1,012	Nearby site sold for \$650 psf ppr in June 2010

Source: Knight Frank Research

# APR-JUN 2011/2ND QUARTER REAL ESTATE HIGHLIGHTS

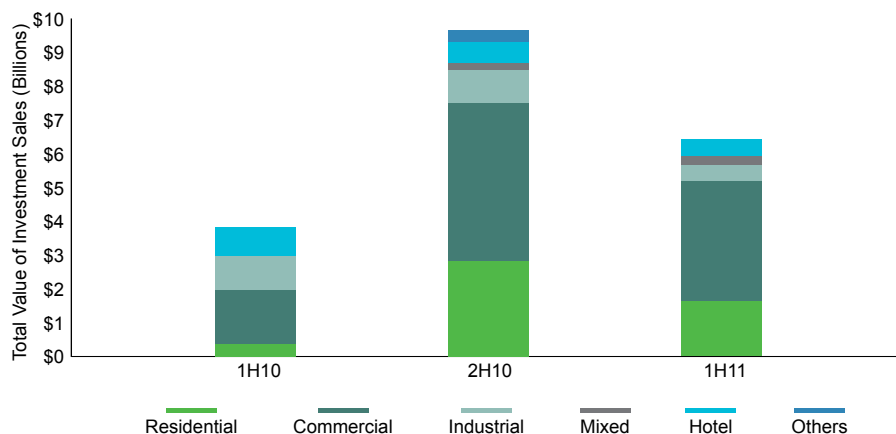
islandwide room occupancy rates. Three centrally located hotel parcels located within/near the CBD were released through the GLS programme: (i) Ogilvy Centre on Robinson Road/Boon Tat Street (Purchased by Royal Brothers), (ii) A parcel in Robertson Quay (Purchased by CDL Development) and (iii) Gopeng Street/Peck Seah Street (Purchased by Far East Organisation). Overall, public property investment activities performed very well across all sectors.

## Private Investment Sales Focused on Quality Properties in Good Locations

Private investment sales saw fewer transactions and fewer transactions of large ticket items. Total value of sales dropped across all sectors except for the mixed use sites/developments.

Transactional value in the residential sector (collective sales and bulk purchases of residential units) decreased by 39.08%. In 1H 2011, the number of bulk purchases reduced significantly, as it became less attractive for investors to flip their purchases for a healthy profit. On the collective sale front, developers have become more selective and cautious in the bidding of sites as price increases of new units in the high end market has slowed down. In addition to this, the launch of some collective sale sites in the market had large price tags. Large developments that were released into the market and have not been sold include Tulip Garden (second launch in 2011 of \$600 million) and Pearlbank (second launch in 2011 at \$750 million). All the collective sale sites sold in 1H 2011 were mostly freehold sites and did not exceed the \$150 million price tag. However, notable developments in excess of \$100 million include Marine Point, Amber Glades, Newton View and Balmoral Condominium.

Chart 3  
**Private Property Investment Sales**



Source: Knight Frank Research

Table 3  
**Notable Commercial Sector Transactions**

Property	Brief description	Transacted Price	Price (psf/NLA)
Illuma	Retail mall	\$295 million	\$1593
Thong Sia Building	Stated to be converted to a specialist medical centre	\$92 million	\$2,160*
50s entertainment complex	Conservation Shophouse	\$12.5 million	N/A
Capital Square	CBD office building	\$889 million	\$2,300
One Finlayson Green	CBD office building	\$227 million	\$2,524

Source: Knight Frank Research  
\*Price psf/strata area



Table 1  
Total Number of GLS Sites in 2H 2010

List	Residential	Commercial	Commercial & Residential	White Site	Hotel	Yield
Confirmed	16 (including 2 EC sites)	2	1	0	0	i. 8,115 residential units ii. 110,950 sm commercial space iii. 435 hotel rooms
Reserve	13 (including 1 EC site)	2	0	2	7	i. 6,080 residential units ii. 156,690 sm commercial space iii. 3,315 hotel rooms
Total	29 (including 4 EC sites)	4	1	2	7	i. 14,195 residential units ii. 279,640 sm commercial space iii. 3,750 hotel rooms

Source: Urban Redevelopment Authority

The commercial sector saw an increase in activity despite the reduction in total value of sales as 2H 2010 set a high base. 1H 2011 enjoyed more transactions covering a good variety of commercial properties cutting across retail, health, office and entertainment uses. A few of the notable transactions are shown below.

The private industrial sector saw a decrease in activity as focus shifted to GLS industrial sites and also as buying activity from industrial REITS slowed down from 2H 2010 where REITS snapped up many properties. Towards the end of 1H 2011, there was renewed interest by the REITS but as owners are aware of the interest in industrial properties, asking prices have crept up and have been met with resistance.

Lion City Hotel & Hollywood Theatre was collectively sold as a single mixed use site and was bought by UOL Development at \$313 million. Two hotels were sold in this half - Studio M Hotel (\$154 million) and Crowne Plaza Changi Airport (\$299.5 million).

## Government Land Sales Programme 2H 2011

The GLS programme 2H 2011 has a total of 43 of sites available. The estimated yield of residential units and commercial space has decreased marginally but the number of hotel rooms have increased. The healthy supply of land in the GLS programme is part of the dual prong approach which the government has adopted since last year which is to dampen speculative activity and also to feed the market with good supply.

The sites made available are located in all parts of the island where the government have plans to increase housing or to boost commercial vibrancy. Examples for the residential sector include areas such as Punggol, Pasir Ris and Sembawang. Hotspots for the commercial sector include the Tanjong Katong area and Marina Bay. Several hotel sites have been placed on the reserve list located in the Kallang and Farrer Park areas. These areas are located closed to planned commercial hub in the Central East area and Little India which is fast emerging as a popular place for tourists.

## Outlook

The performance of investment sale for 2H 2011 will be polarised across the various real estate sectors and in terms of public and private activities. As the performance of investment sales is so wide ranging covering residential to industrial transactions and involves, various factors need to be taken into account such as, the GDP performance of Singapore, local demand for residential properties, Rules and regulations implemented by the local government to stabilise the residential market, supply of HDB flats and the potential upward revision of the income ceiling by the MND, interest rates (dependant on interest rates in the US), inflationary pressure in Asia, and debt crisis and unemployment rates in the US and euro zone.

The outlook for the various sectors is outlined below.

# APR-JUN 2011/2ND QUARTER REAL ESTATE HIGHLIGHTS

Table 1  
Total Number of GLS Sites in 2H 2010

Sector	Public Investment Sales	Private Investment Sales
<b>Residential</b>	<p><b>Moderate Outlook</b></p> <ul style="list-style-type: none"> <li>Increase in supply and potential review to raise the qualifying income ceiling for public housing projects uncertainty on the demand for mass market homes. This can potentially reduce interest from developers. Well located GLS sites with good amenities should still receive good interest.</li> </ul>	<p><b>Moderate Outlook</b></p> <ul style="list-style-type: none"> <li>Transactional activities of collective sale sites will be mainly limited to well located sites, are freehold and with a manageable price quantum (below \$200 million).</li> <li>The appeal of leasehold collective sale sites will pale compare to GLS sites due to the differential premium required.</li> <li>The potential increase in interest rates and reduction in buyer activity is likely to cause developers to be cautious and selective in the bidding of sites.</li> </ul>
<b>Commercial Office</b>	<p><b>Healthy Outlook</b></p> <ul style="list-style-type: none"> <li>We expect to see good interest in the commercial GLS sites as they have good locations</li> <li>There seems to be growing interest in commercial office land in the Tanjong Katong area. The government is trying to create a new commercial hub complementary to the CBD and has made two commercial sites available on the 2H 2011 GLS programme.</li> </ul>	<p><b>Relatively Quiet Outlook</b></p> <ul style="list-style-type: none"> <li>Deals will continue to happen but at a slower rate and of smaller quantum.</li> <li>High capital values achieved in 1H 2011 (close to the peak in 2007/08) has set a high benchmark for owners, whilst the increase in office rents has tapered off, compressing rental yields.</li> </ul>
<b>Commercial Retail</b>	<p><b>Stable Outlook</b></p> <ul style="list-style-type: none"> <li>Consumer spending is expected to increase although at a slower pace due to uncertainty in the global economy and slight slowdown in local GDP. This will provide some support for retail rents.</li> <li>We expect to see a decent amount of interest in commercial sites with a retail component in suburban locations.</li> </ul>	<p><b>Stable Outlook</b></p> <ul style="list-style-type: none"> <li>Transactions are expected to continue.</li> <li>The healthy and stable consumer spending in Singapore will keep funds and investors interested provided that there is a good rental yield.</li> </ul>
<b>Hotel</b>	<p><b>Positive Outlook</b></p> <ul style="list-style-type: none"> <li>Strong tourism numbers will continue to provide support for this sector.</li> <li>The 2H 2011 GLS programme has a number of sites on the reserve list which may attract robust interest from developers/hotel operators.</li> </ul>	<p><b>Stable Outlook</b></p> <ul style="list-style-type: none"> <li>Strong tourism numbers will continue to provide support for this sector. However, activity will be limited to property owners who are willing to sell but at a premium.</li> </ul>
<b>Industrial</b>	<p><b>Moderate to Positive Outlook</b></p> <ul style="list-style-type: none"> <li>Industrial activities will continue to focus on GLS sites.</li> <li>We expect developers will continue to submit healthy bids for industrial sites, as there is strong interest for strata units from investors, some of which have been diverted from the residential sector.</li> </ul>	<p><b>Relatively Quiet Outlook</b></p> <ul style="list-style-type: none"> <li>REITs are looking to expand their portfolios. However, the rapid escalation of capital values for private industrial properties has compressed rental yields making it unattractive for REITs.</li> <li>Activities will most likely be limited to sale with leaseback arrangements.</li> </ul>

Source: Urban Redevelopment Authority



# AUCTION PROPERTY MARKET

The number of properties put up for auctions in the first half of 2011 totalled to 288, reflecting a 2.7% drop from 2H 2010. Whilst the total value of sales at auctions decreased by 36.2% to \$69.6 million, 1H 2011 saw the successful sale of more industrial and HDB shops / shophouses compared to last half where there were sales of high value properties such as Good Class Bungalow (GCB) land and centrally located commercial office properties.

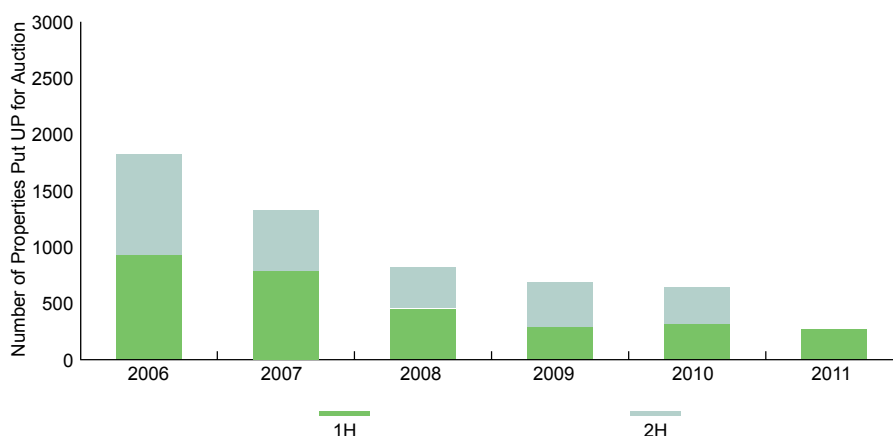
## Total Number of Properties Put Up for Auction

On the 13th January 2011, the government imposed an additional round of cooling measures to prevent the formation of a property bubble in the residential sector. The aim was to maintain a stable and sustainable market to keep homes affordable for genuine buyers.

The measures include (i) increasing the imposition of holding period for Seller's Stamp Duty (SSD) from three years to four years, (ii) raising SSD rates to 16%, 12%, 8% and 4% for residential properties bought on 14th January 2011 onwards and are sold in the first, second, third and fourth year from date of purchase, (iii) lowering the loan to value (LTV) ratio to 50% on housing loans for purchasers who are not individuals and (iv) lowering the LTV limit from 70% to 60% to purchasers who have more than one outstanding loan.

Chart 1

**Total Number of Properties Put Up for Auction**



Source: Knight Frank Research

# APR-JUN 2011/2ND QUARTER REAL ESTATE HIGHLIGHTS

Generally, residential properties make up the largest market share in auctions. Invariably, the cooling measures had affected the number of residential properties being put for auctions which consequently reduced the number of properties put up for auction. All in all, some 288 properties were put up for auction in the first half of 2011, reflecting a 2.7% drop from 2H 2010.

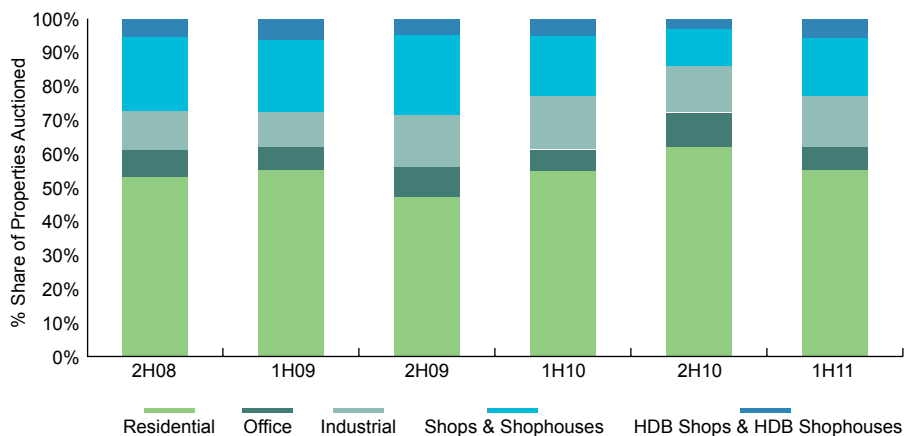
The number of mortgagee sale put up for auctions started to trend down since 2005. Conversely, auction is fast become a popular platform for owners' sales. The gap between number of mortgagees' sale and owners' sale continued to widen over time.

Chart 2  
**Percentage Share of Mortgagee and Owner Sales Put Up for Auctions**



Source: Knight Frank Research

Chart 3  
**Proportion of Property Types Sold Via Auctions**



Source: Knight Frank Research



## Slow Down in the Residential Sector

Residential properties continued to command the largest share in auctions notwithstanding four rounds of cooling measures since 2009 (See Chart 4). The proportion dropped from 64% in 2H 2010 to 56% in 1H 2011 although it is still within healthy levels.

The number of residential properties put up for auctions dropped from 189 in 2H 2010 to 162 in 1H 2011. Consequently, the total value of residential properties successfully sold at auctions fell by 41.7% to \$23.9 million from \$40.9 million in 2H 2010.

Most of these residential properties were located in prime locations such as districts 9, 10, 11 and 15. Successful transactions comprised mostly non-landed properties with a small proportion landed ones.

## Large Price Quantum of Office Properties acted as a Deterrent

Less office units were put up for auction in 1H 2011 and few units were sold. The large price quantum of the office properties could be the main deterrent for buyers in particular retail investors who traditionally invest in residential units. Notably, office units put up for auction were mostly units with larger floor plates (above 1,000 sf) in central locations with opening bids above \$1 million.

Table 1  
Number and Value of Residential Properties Sold Via Auction

Time	Number of HDB Shops & HDB Shop house Properties Auctioned	Value of HDB Shops & HDB Shop house Properties Sold (million)
2H 10	189	\$40.90
1H 11	162	\$23.85
Change	-14.3%	-41.7%

Source: Knight Frank Research

Table 2  
Number and Value of Office Properties Sold Via Auction

Time	Number of HDB Shops & HDB Shop house Properties Auctioned	Value of HDB Shops & HDB Shop house Properties Sold (million)
2H 10	22	\$15.57
1H 11	19	\$1.40
Change	-13.6%	-91.0%

Source: Knight Frank Research

# APR-JUN 2011/2ND QUARTER REAL ESTATE HIGHLIGHTS

Table 3  
Number and Value of Industrial Properties Sold Via Auction

Time	Number of HDB Shops & HDB Shop house Properties Auctioned	Value of HDB Shops & HDB Shop house Properties Sold (million)
2H 10	44	\$3.42
1H 11	44	\$8.18
Change	0.0%	139.1%

Source: Knight Frank Research

Table 4  
Number and Value of Shops and Shop Houses Sold Via Auction

Time	Number of HDB Shops & HDB Shop house Properties Auctioned	Value of HDB Shops & HDB Shop house Properties Sold (million)
2H 10	32	\$48.28
1H 11	47	\$28.50
Change	46.9%	-41.0%

Source: Knight Frank Research

Table 5  
HDB Shops and Shop Houses Performance

Time	Number of HDB Shops & HDB Shop house Properties Auctioned	Value of HDB Shops & HDB Shop house Properties Sold (million)
2H 10	9	\$0.91
1H 11	16	\$7.63
Change	77.8%	738.5%

Source: Knight Frank Research

## Strong Performance in the Industrial Sector

The industrial sector in 1H 2011 saw increased interest as some investors/buyers attentions were diverted from residential properties into this sector. Whilst the number of industrial properties put up for auctions remained flat, the total value of industrial properties sold jumped by 139.12%. The main pull factors for industrial properties are the attractive rental yields and manageable price quantum.

The industrial properties sold comprise a mixed bag of freehold and leasehold properties. In addition to reasons such as for investment purposes, good yields, and accessibility via MRT, some buyers bought these industrial properties for the expansion of their firms coming off from the solid economic performance in Singapore.

## Shops & Shop houses

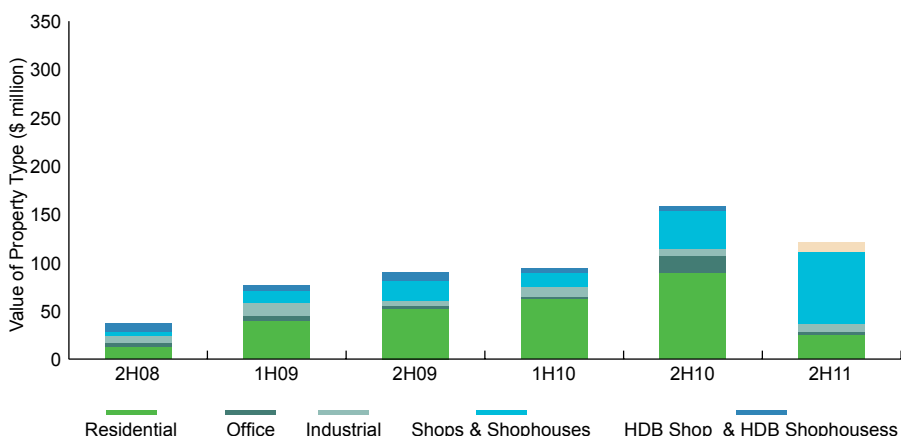
More shops and shop houses were put up for auctions in 1H 2011 although less successfully sold. Sales were confined to well-located shop houses and strata shops with reasonable asking price. The low success rate is largely due to the mismatch in buyers' and sellers' expectation of the selling price. Notwithstanding a lower sales rate, auction continues to be a good platform for selling strata shops and shop houses.

## HDB Shops

More HDB shops and HDB shop houses were put up for auctions in 1H 2011 accounting for some \$7.63 million worth of transactions. Capital values in the HDB shop and shop house sector has been on the rise since 2010 in tandem with other sectors of the property market. Whilst rental yield become compressed consequently, a handful of HDB shops/shop houses in established estates managed to maintain good rental yield and in turn, garnered strong buyers' interest.

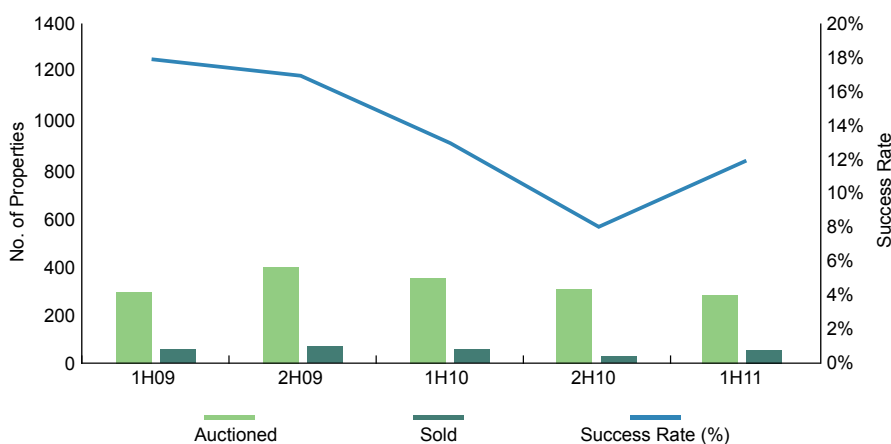


Chart 4  
**Total Value of Properties sold by Property Type (\$ million)**



Source: Knight Frank Research

Chart 5  
**Success Rate of Properties Auctioned**



Source: Knight Frank Research

## Total Value of Properties Sold at Auctions and Success Rate

Notwithstanding an improvement in the auction success rate, the total value of auction sales decreased by 36.2% to \$69.56 million. The decrease in total value of properties sold is a result of the high base in 2H 2010 where several high valued properties were successfully auctioned.

Properties sold in 1H 2011 were generally of a lower price quantum as more industrial and HDB shops/shophouses were sold as compared to the last half where there were more sales of higher value properties such as Good Class Bungalow (GCB) land and centrally located commercial office properties.

## Outlook

Amidst the shroud of uncertainty created by the US and European financial woes, owners that are hoping to achieve record high prices at auction will have to review their expectations as price growth will ease off for the rest of the year.

With interest rates expected to remain low for the next two years, mortgagees' sales is not expected to flood the market as evident in the earlier years since 2007 where interest rates started dropping. Moving forward, owner sales will still dominate the auction market as many continue to use this avenue to showcase and sell their properties to the widest group of buyers.

# RESEARCH



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