



## JAN-MAR 2010/1ST QUARTER REAL ESTATE HIGHLIGHTS

**Knight Frank**

### HIGHLIGHTS

- Sales activity in the private residential market revived in 1Q 2010, with the number of developer sales more than double to total 4,445 units. However, the pace of price increase of private residential properties moderated, from a 7.4% qoq increase in 4Q 2009 to 5.1% qoq increase in 1Q 2010. Meanwhile, prices of HDB resale flats increased by 2.7% qoq to reach a record high in 1Q 2010.
- Prime retail rents showed encouraging recovery in 1Q 2010. Prime retail rents in Orchard Road (Central) edged up by 3.5% qoq in 1Q 2010, while that in suburban areas improved by 0.7% qoq in 1Q 2010. The recovery of prime retail space in Orchard Road was the first after five consecutive quarters of decline.
- The office rental market was fairly stable in 1Q 2010, with rents declining qoq by a marginal 1 to 3% across most office sub-markets. Rents of prime offices led the downward correction, with Grade A offices in Raffles Place reflecting a 3.8% qoq decrease.
- On the whole, rents of conventional industrial space improved by 2.4% qoq in 1Q 2010. However, rents of high-tech space and business parks fell qoq by 3.0% and 3.9% respectively in 1Q 2010.

# RESIDENTIAL PROPERTY MARKET

Sales activity in the private residential market revived in 1Q 2010, with the number of developer sales more than double to total 4,445 units. However, the pace of price increase of private residential properties moderated, from a 7.4% qoq increase in 4Q 2009 to 5.1% qoq increase in 1Q 2010. Meanwhile, prices of HDB resale flats increased by 2.7% qoq to reach a record high in 1Q 2010.

## Private Residential Sector

### Buoyant Launch and Sales Activity

2010 commenced on a positive note for the private residential market, where launch and sales activity in the primary market revived after experiencing a year-end contraction in 2009. Notwithstanding measures introduced by the Government to discourage speculative buys, 4,445 units were sold in the primary market in 1Q 2010. The 4,445 units sold by developers exceeded the 4,375 units launched in 1Q 2010.

Compared to 4Q 2009, the number of units launched in 1Q 2010 increased qoq by 96.5%. Of all the three main regions, it was the Core Central Region (CCR), which had the largest number of units launched in 1Q 2010. The CCR accounted for 46% (or 1,990 units) of total number of units launched in 1Q 2010, followed by Outside Central Region (OCR, 37%, 1,635 units) and Rest of Central Region (RCR, 17%, 750 units). This reversed the trend in 2009, where the OCR accounted for the majority of the homes launched.

Developers sold a total of 4,445 units in 1Q 2010, reflecting a qoq increase of 118%. Out of these 4,445 units, nearly half, or 45%, were sold in CCR, reflecting the revived interest for high-end residential properties. This was followed by the OCR, which accounted for 40% homes sold in the primary market.

The launch and sale activity in 1Q 2010 was the second quarterly high since 2008. It trailed only the record high in 3Q 2009 - 5,904 units were launched in 3Q 2009 while 4,714 units were sold by developers in 3Q 2009. Projects, which featured well in 1Q 2010, include The Vision (236 units sold at median price of \$1,050 per sq ft), 76 Shenton (all 202 units were sold when released in March, at median price of \$1,900 per sq ft) and The Laurels (115 units sold for a median price of \$2,830 per sq ft).

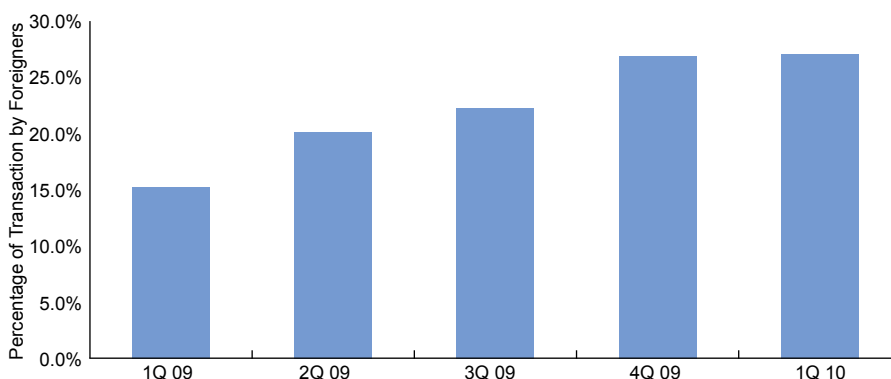


## Sustained Foreign Homebuying Interest

The number of foreign homebuyers for private residential properties in 1Q 2010 remained similar to that in 4Q 2009. Foreigners, comprising both permanent residents and non-permanent residents, accounted for 1,769 transactions of private homes in 1Q 2010, reflecting a marginal fall of 1.1% qoq. The share of foreign homebuyers maintained at 27% of all private residential home transactions in 1Q 2010.

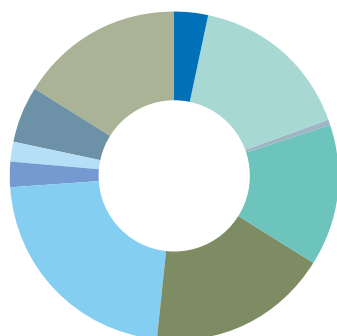
At 27%, this was among the highest share of private residential transactions, which foreigners accounted for in each quarter. The record highest share of private residential transactions by foreigners was

Chart 2  
Percentage of Transactions by Foreigners as at 1Q 10



Source: Urban Redevelopment Authority, Knight Frank Research

Chart 1  
Proportion of Foreign Homebuyers as at 1Q 10



Australia	3.4%
China	16.1%
Hong Kong	0.6%
India	13.8%
Indonesia	17.8%
Malaysia	22.3%
Taiwan	2.4%
USA	1.9%
United Kingdom	5.7%
Others	16.0%

Source: Urban Redevelopment Authority, Knight Frank Research

in 1Q 2008, where foreigners accounted for a share of 27.3% of private residential transactions.

Malaysians continued to pick up the largest number of homes in 1Q 2010, with 394 transactions. Although Malaysians accounted for the largest share of 22.3% of overall home purchases by foreigners in 1Q 2010, this was a slip from 24.7% share in 4Q 2009. Meanwhile, Indonesians accounted for the next largest share, of 17.8%.

Urban Suites (64 purchases by foreigners), Parvis (36 purchases by foreigners) and Cube 8 (28 purchases by foreigners) emerged as top-selling non-landed developer projects among foreign buyers in 1Q 2010. One Amber (13 purchases by foreigners), One Jervois (13 purchases by foreigners) and Casa Merah (12 purchases by foreigners), are top-selling non-landed sub-sale projects in 1Q 2010. Meanwhile, Costa Del Sol (30 purchases by foreigners), Melville Park (21 purchases by foreigners) and City Square Residences (20 purchases by foreigners), are resale developments most favoured by foreigners in 1Q 2010.

## Sustained Price Recovery

According to URA, the pace of price increase for private residential properties moderated in 1Q 2010. Based on the flash price index of private residential properties, prices rose from 165.7 points in the 4Q 2009 to 174.2 points in the 1Q 2010, reflecting 5.1% qoq increase. The 5.1% qoq increase reflected a moderation in price increase, compared to a 7.4% qoq increase in the prices of residential properties in 4Q 2009.

Flash estimates also showed that prices of non-landed private residential properties increased qoq by 4.5% in Core Central Region (CCR), 7.2% in Rest of Central Region (RCR) and 3.9% in Outside Central Region (OCR) for 1Q 2010. Comparatively, in 4Q 2009, prices of non-landed private residential properties increased qoq by 7.3% in CCR, 9.5% in RCR and 6.3% in OCR.

The flash estimates also indicated that prices of private residential properties in 1Q 2010 are 1.9% lower than that of the last

# JAN-MAR 2010/1ST QUARTER REAL ESTATE HIGHLIGHTS

peak in 2Q 2008, by 1.9%. It is 4.0% lower than the all-time high in 2Q 1996.

The CCR was the only area where prices of non-landed private residential properties in 2009 were still lower than the all-time high since the data of prices by different planning regions was available from 2004. As such, prices of non-landed private residential properties in CCR for 1Q 2010 was 6.8% lower than the peak in 1Q 2008, while that for OCR exceeded the peak in 2Q 2008 by 1.8%. Prices of non-landed residential properties were 2.9% lower than the peak in 2Q 2008.

Going by Knight Frank's data, average prices of private non-landed resale homes continued to increase in 1Q 2010. In fact, prices of resale properties saw increases in 1Q 2010 although developers generally maintained selling prices at 4Q 2009's. Prices of high-end resale residential properties, represented by luxury homes and freehold residential properties in the prime districts 9, 10 and 11, increased by 7.1% qoq, while that of mass-market private residential properties increased by 2.4% qoq in 1Q 2010. Meanwhile, prices of homes in the mid-end segment, such as East Coast, increased by 4.7% qoq in 1Q 2010.

## Slight Rental Recovery

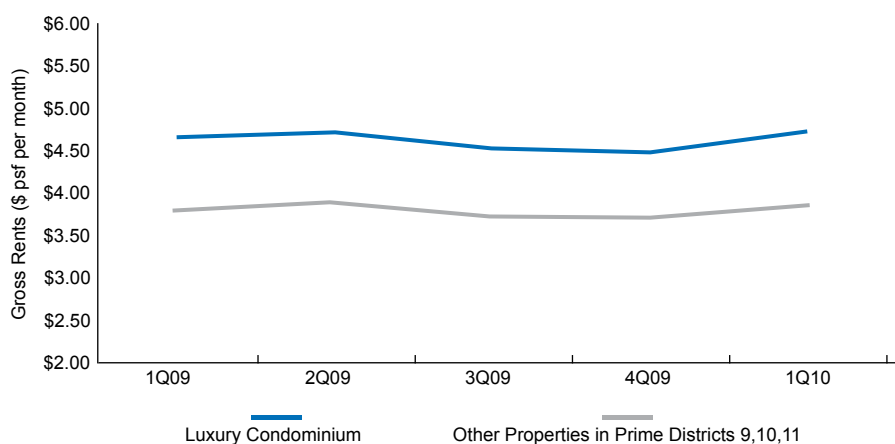
Rents of all non-landed private residential properties recovered in 1Q 2010. This turnaround follows after almost seven consecutive quarters of decline in private residential rents. Rents of luxury residential properties staged the most significant increase, with a 5.6% qoq increase in rentals. Rents of high-end non-landed residential properties generally increased

qoq by 4.9%, while that of mid-end non-landed residential properties improved by 3.7% in 1Q 2010. Rents of mass-market non-landed residential properties improved by 2.8% qoq.

On the whole, rents of non-landed private residential properties have returned to the

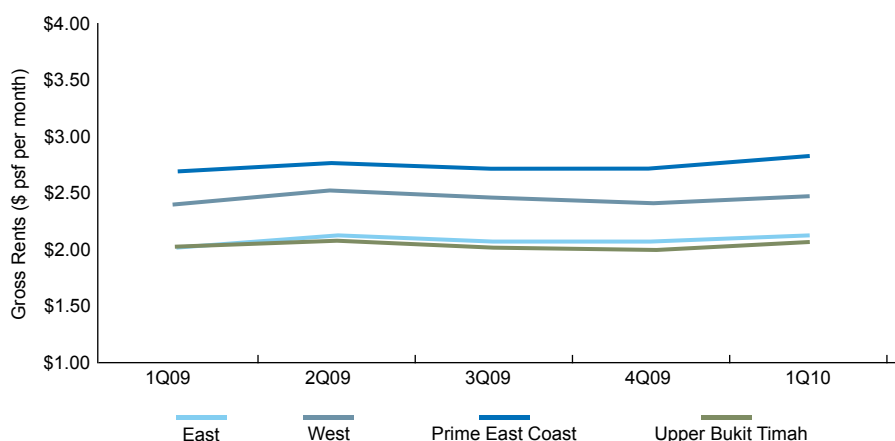
level in end 2008 or 1Q 2009, the Period of the world economic crisis. Rents of non-landed residential properties are now generally 15 to 20% lower than the all-time high in 1Q 2008, before the world economic crisis deepened.

Chart 3  
**Monthly Gross Rents of Non-landed Residential Properties in Prime Districts**



Source: Knight Frank Research

Chart 4  
**Monthly Gross Rents of Non-landed Residential Properties Outside Prime Districts**



Source: Knight Frank Research



## Government Measures to Cool the Private Residential Market

The Government announced various measures to deal with excessive speculations in private residential properties in 1Q 2010. The first set of measures were announced in February 2010, where stamp duty will be effected for sellers who resold their private residential properties in a year, as well as raising the Loan-to-value ratio from 80% to 90%. Introducing sellers' stamp duty is likely to impact speculators and spec-vestors who have the intention to flip their residential purchase if prices improve along with economic recovery, while raising the loan-to-value ratio is expected to have a limited effect on the overall number of homebuyers as many homebuyers do not borrow to the maximum quantum and banks usually critically evaluate the credit worthiness of borrowers before granting a 90% LTV loan. Although these are market-dampening measures, these are likely to ensure a stable and sustainable growth for private residential properties in the long run.

Meanwhile, changes were introduced to the Government Land Sales in March 2010. Firstly, the successful bidder will pay lower deposit for the site, down from 5% to 3% of the land price. Lowering the deposit for the site is beneficial for developers, as it reduces upfront cost and eases the cash flow burden of developers. As well, sites can be triggered even if the minimum bid price is not met, in so long as there are at least two bidders. These will help developers to initiate more sites based on their assessment of the property market conditions and outlook.

## Public Housing Sector

### Resale Prices Reached Record High

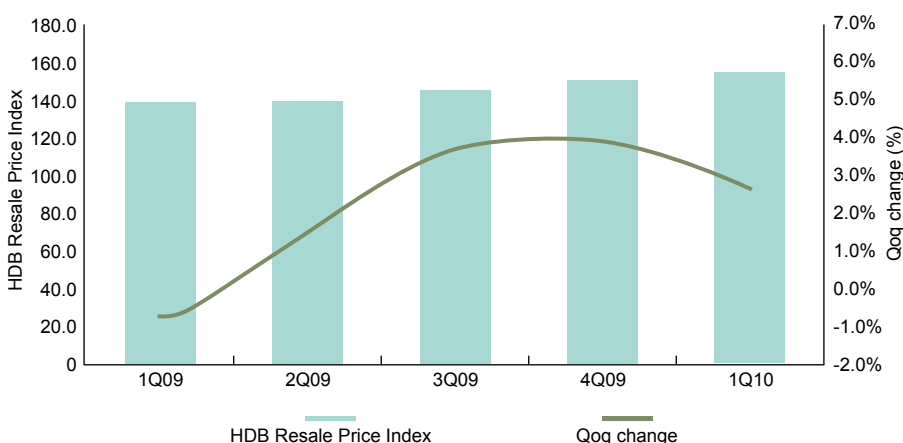
Prices of HDB resale flats in 1Q 2010 breached the record high in 4Q 2009. However, the growth in prices of resale flats moderated from 3.9% qoq increase in 4Q 2009 to 2.7% qoq increase in 1Q 2010. Overall, prices of resale flats are 12% higher than the same period a year ago.

Although prices of HDB resale flats were already at historic high in end 2009, the rise was in line with better economic performance in 1Q 2010, which generally added confidence to homebuyers.

The price increase was also underpinned by strong interest for resale flats, which offer immediate occupation. A moderate price increase was however due to homeowners who were not in a hurry to sell their flats, as owners will have to look for replacement homes after selling their flats. These resulted in a moderate supply of flats available for sale in the resale market.

While buyers of resale flats are usually different in profile from those who buy flats direct from HDB, the recent overwhelming response for flats released under the Build-to-order (BTO) scheme is reflective of the interest for HDB flats. For example, 5,105 applications were received for 828 flats released under the Sengkang and Sembawang BTO schemes, reflecting an interest six times of the available units.

Chart 5  
HDB Resale Price Index



Source: Housing Development Board, Knight Frank Research

# JAN-MAR 2010/1ST QUARTER REAL ESTATE HIGHLIGHTS

## Outlook for Private Residential Property Sector

Although the Government introduced several measures during 1Q 2010 to curb speculations, the overall sentiment in the private residential market is positive. While these may be seen to be market-dampening measures, these are ultimately beneficial as it ensures a more stable and steady growth of the private residential market.

Prices of high-end residential properties are expected to rise by about 3 to 5% in each of the forthcoming quarters in 2010, bringing prices of high-end residential properties by end 2010 to be comparable with the all-time high seen in 2007. Prices of suburban private residential properties are expected to be fairly stable for the rest of 2010 and increase by 1 to 2% for each of 2Q to 4Q 2010. A marginal price increase is expected for suburban residential properties due to a significant price recovery in 2009 and ample supply of land, which is available for suburban condominium development under the Government Land Sales Programme in 2010. Additionally, a number of these sites have been launched or sold recently.

The opportunities for rental recovery of private residential properties in 2010, arise from positive economic conditions and a larger tenant base. Rents of private homes are expected to improve by 5% to 10% for the whole of 2010. The potential for a rental growth in 2010 is also likely, given that rents of private homes have generally stagnated or fell in 2009. The rental recovery in 2010 will be underpinned by an active leasing market, where a brighter economic prospect encourages businesses to incrementally hire more expatriates.

Table 1  
Rentals of Selected Private Residential (Apartment/Condominium) Units as at 1Q 2010

Locality	Monthly Rent (psf)
Districts 9, 10 and 11 (Luxury)	S\$ 4.80 – S\$ 5.00
Districts 9, 10 and 11 (Others)	S\$ 3.30 – S\$ 4.20
East Coast	S\$ 2.30 – S\$ 3.25
West	S\$ 2.15 – S\$ 2.70
Upper Bukit Timah	S\$ 1.80 – S\$ 2.30
Thomson, Toa Payoh, Bishan	S\$ 2.15 – S\$ 2.75
Yio Chu Kang, Yishun	S\$ 1.90 – S\$ 2.25

Source: Knight Frank Research

Table 2  
Capital Values of Selected Private Residential (Apartment/Condominium) Units as at 1Q 2010

Locality	Capital Value (psf)	
	Freehold	99-year Leasehold
Districts 9, 10 and 11 (Luxury)	S\$ 2,300 – S\$ 2,500	-
Districts 9, 10 and 11 (Others)	S\$ 1,450 – S\$ 1,520	S\$ 990 – S\$ 1,190
East Coast	S\$ 880 – S\$ 1,080	S\$ 750 – S\$ 980
West	S\$ 720 – S\$ 840	S\$ 600 – S\$ 720
Upper Bukit Timah	S\$ 710 – S\$ 750	S\$ 600 – S\$ 710
Thomson, Toa Payoh, Bishan	S\$ 740 – S\$ 830	S\$ 650 – S\$ 780
Yio Chu Kang, Yishun	-	S\$ 550 – S\$ 670

Source: Knight Frank Research

## Outlook for Public Residential Property Sector

Although the Government introduced several measures including raising the minimum occupation period, the interest for resale flats is likely to sustain as the majority of public home dwellers are owners instead of investors and speculators. The effect of raising the minimum occupation period is expected to have limited effect on potential homebuyers.

Prices of resale flats are expected to be fairly stable, supported by increasing affordability as the economic conditions improve. Prices of resale flats are however unlikely to further increase, due to the record high achieved in 2009 and further increase may dampen homebuying interest. On a positive aspect, as homeowners are generally price-sensitive, a moderation in price increase may attract interested homebuyers, who have been waiting for an appropriate time to purchase flats.



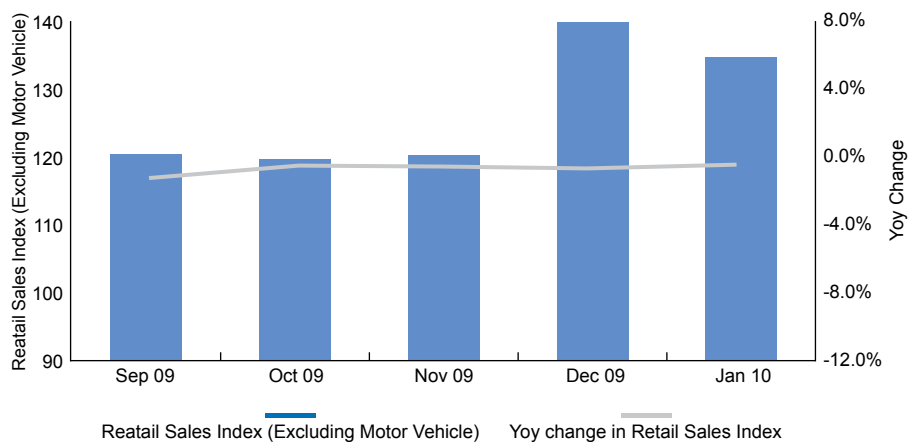
# RETAIL PROPERTY MARKET

Prime retail rents showed encouraging recovery in 1Q 2010. Prime retail rents in Orchard Road (Central) edged up by 3.5% qoq in 1Q 2010, while that in suburban areas improved by 0.7% qoq in 1Q 2010. This recovery of prime retail space in Orchard Road was the first after five consecutive quarters of decline.

## Cautiously Optimistic Consumer Sentiments

It is quite evident that consumer sentiments have improved. The recovery was since end 2009, where the nominal retail sales index (excluding motor vehicles) improved from 120 in November 2009 to 145 in December 2009. This positive consumer sentiment was carried into January 2010. Although nominal retail sales index fell in January 2010, the reading of 134 reflected positive consumer sentiments as it was well above 120 points. Shoppers are generally more optimistic than a year ago, due to stronger economic outlook and employment prospects. Although shoppers still remain cautious, they are more confident to spend on reasonable forms of comfort compared to a year ago.

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



Source: Singapore Department of Statistics

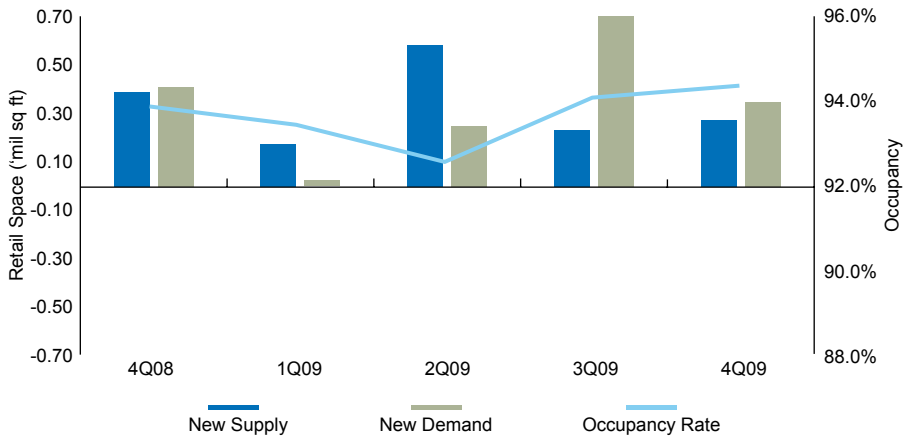
# JAN-MAR 2010/1ST QUARTER REAL ESTATE HIGHLIGHTS

## Rise in Occupancy of Retail Space

The occupancy of retail space increased from 94% in 3Q 2009, to 94.3% in 4Q 2009, following a 1.5 percentage-point increase in 3Q 2009. At 94.3%, this was 0.2 percentage-point lower than the all-time high in occupancy seen in 1Q 1993. Compared to 2008, occupancy of retail space in 2009 inched by 0.2 percentage-point.

The improvement in occupancy can be seen across all retail sub-markets, except the Rest of Central Area. Occupancy of retail space in Rest of Central Area fell qoq by 0.8 percentage-point in 4Q 2009, from 92.3% in 3Q 2009 to 91.5% in 4Q 2009. Meanwhile, the occupancy of retail space in Orchard Road and Outside Central Region (a proxy to Suburban Area) stabilized at 94.2% and 97.1% respectively in 4Q 2009. However, the occupancy of retail space in Orchard Road is the lowest since 4Q2002, while that of Outside Central Region is among the record high. Occupancy of retail space in Outside Central Region is only 0.1 percentage-point lower than the record high of 97.2% seen in 3Q 1997. The fall in occupancy of retail space in Orchard Road was due to a surge in new completions in 2009, whereas demand for retail space in Suburban Areas remained strong amid limited new completions.

Chart 2  
Islandwide Demand and Supply



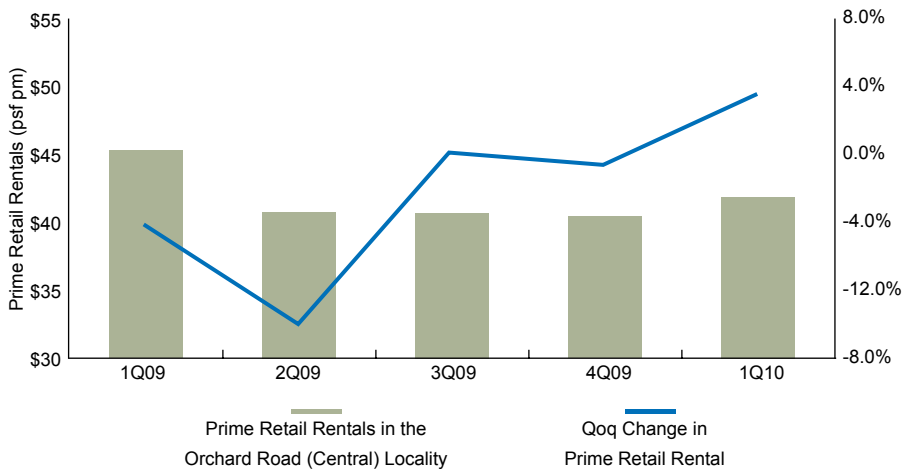
Source: Urban Redevelopment Authority, Knight Frank Research

## Rental Recovery in 1Q 2010

Prime retail rents posted the first recovery in 1Q 2010, after five consecutive quarters of rental decline. The increase was most significant for prime retail rents in Orchard Road (Central), which rose by 3.5% qoq to average \$41.86 per sq ft in 1Q 2010.

Although the recent new completions in Orchard Road may have increased leasing competition in Orchard Road, rental performance has been generally favourable as the arrival of ION, Orchard Central and 313@Somerset has significantly enhanced the attractiveness of Orchard Road. Landlords have generally benefited from this makeover while retailers are increasingly optimistic in rental offers.

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



Source: Knight Frank Research



The rental recovery was however modest for prime retail space outside Orchard Road. Rents of prime retail space in Marina Centre/City Hall/Bugis increased by 0.5% qoq in 1Q 2010, while that in City Fringe remained similar to 4Q 2009. Prime retail

rents in suburban malls reflected a 1.6% qoq increase. With the rents in Orchard Road showing better improvement in 1Q 2010, the gap between prime retail rents in Orchard Road (Central) and the suburban malls is re-widening.

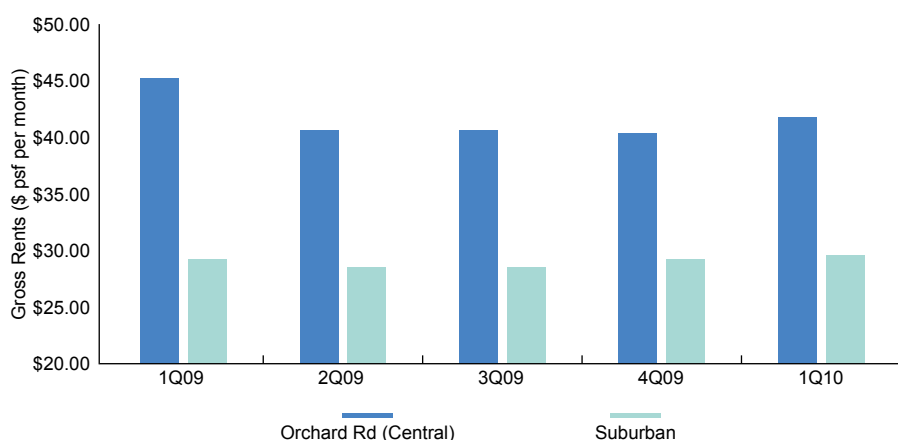
## Outlook

Going forward, the prospects for the retail property market are increasingly positive, with rents expected to rise by up to 5% for the whole of 2010. There is potential for retail rents to recover, following a long period of consecutive quarterly declines and a stronger economic outlook for 2010.

With the completion of three major malls in Orchard Road in 2009, the shopping scape in Orchard Road will stabilise. The year 2010 will see fewer and smaller new niche retail completions, such as Knightsbridge and Tripleone Somerset, in Orchard Road. The focus will move from anticipation for new malls in 2009, to how well these malls sustain the interest of shoppers in 2010. The performance will be a reflection of the success in the remaking of Orchard Road, indicated by shoppers' response to the new shopping experience. The rejuvenation of Orchard Road is likely to be seen as a successful attempt in 2010, where the variety of new retail offerings creates an exotic shopping experience.

The year 2010 will see a new premier shopping cluster, Marina Bay, with the arrival of Marina Bay Sands Shoppes and Marina Bay Link Mall. The Marina Bay shopping cluster will add life to the Central Business District and provide more shopping choices for all, in addition to the working population and visitors to the integrated resort. While there are concerns about potential competition with major retailing belts, the Marina Bay shopping cluster is expected to enrich the shopping experience in Singapore upon its arrival. The Marina Bay shopping cluster is likely to develop an exclusive shopping character, and complement the unique identity of each major shopping clusters in Singapore.

Chart 4  
**Prime Retail Rentals in Orchard Road (Central) and Suburban Locality**



Source: Knight Frank Research

Table 1 Current Rentals of Prime Shopping Centre Space	
Locality	Average Prime Monthly Gross Rental <sup>1</sup> (psf)
Orchard (Central)	S\$ 41.86
Orchard (Fringe)	S\$ 22.75
Marina Centre, City Hall, Bugis	S\$ 28.29
City Fringe	S\$ 21.19
Suburban	S\$ 29.77

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

Source: Knight Frank Research

# OFFICE PROPERTY MARKET

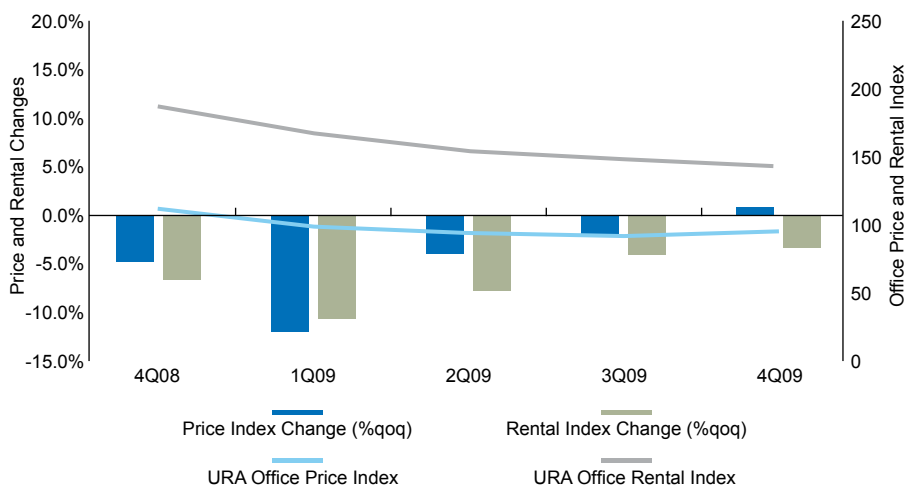
The office rental market was fairly stable in 1Q 2010, with rents declining qoq by a marginal 1 to 3% across most office sub-markets. Rents of prime offices led the downward correction, with Grade A offices in Raffles Place reflecting a 3.8% qoq decrease.

contraction in 2009. A survey conducted by the Monetary Authority of Singapore showed economists predicted 9.5% growth in Singapore's economy for the first quarter of 2010 while preliminary estimates by the Ministry of Trade of Industry (MTI) reflected that the Singapore economy grew by 13.1% in 1Q 2010. The MTI has since revised the forecast for Singapore's economic growth for 2010 from 4.5% to 6.5%, to 7.0% to 9.0%. These anticipations are made, barring any unforeseen major global events and circumstances, and are in sync with a general improvement in global economic conditions. This can be seen from the United States of America, where growth is broadening across sectors and the employment market has shown encouraging signs of improvement.

## Continued Upward Revision for 2010's Economic Forecast

The Singapore economy emerged from the doldrums, after a 2% economic

Chart 1  
**Prices and Rentals**



Source: Urban Redevelopment Authority, Knight Frank Research



## Recovery in Office Leasing Demand

Net demand for office space turned positive in 3Q 2009, after three consecutive quarters of contraction. This momentum was brought into 4Q 2009, with net demand of office space totalling 301,389 sq ft. This was also the first quarter in the past two years, i.e. 2008 and 2009, where net demand outstrips net supply. As such, occupancy of office space slightly improved, from 87.8% in 3Q 2009, to 87.9% in 4Q 2009. This brought occupancy of office space in each quarter to be the highest in the past three years. Net take-up in the quarter included 89,000 sq ft, which BHP Biliton pre-committed in Marina Bay Financial Centre Tower 2, in addition to the 142,000 sq ft already pre-committed in 2008. Meanwhile, Noble Group leased 21,000 sq ft in Mapletree Anson and the SP Services will relocate from Tripleone Somerset to occupy 100,000 sq ft in Mapletree Business City.

Net demand was the least encouraging in Downtown Core, which includes prime offices such as Grade A office space in Raffles Place. Net demand in Downtown Core contracted by 53,819 sq m, the only planning region where net demand was negative in 4Q 2009. This was partly due to a flight to quality office space, as companies vacated older prime office space for newer ones. New completions in Downtown Core in 4Q 2009 include The Straits Trading Building and Twenty Anson. Against the backdrop of 236,806 sq ft of net office supply in the Downtown Core, the occupancy of office space in Downtown Core fell 0.9 percentage-point qoq in 4Q 2009 to 86.6%.

However, occupancy of office space improved in the Fringe Area and Outside Central Region. Occupancy of office space in Fringe Area and Outside Central Region improved qoq by 0.4 percentage-point and 2.2 percentage-points respectively in 4Q 2009. The improvement of office space in the Fringe Area was partly due

to the attractiveness of the area, which is generally well-located and offer office space at attractive rents. The improvement in the occupancy of office space in Outside Central Region was however due to limited new supply, compared to 1H 2009. A total of 269,0098 sq ft of office space was completed in the Outside Central Region in 2Q 2009, resulting in sharp 5.3 percentage-points fall in occupancy in the region. Although office occupancy improved in 4Q 2009 to 82.6%, this was the quarter where the Outside Central Region had the third lowest occupancy of office space.

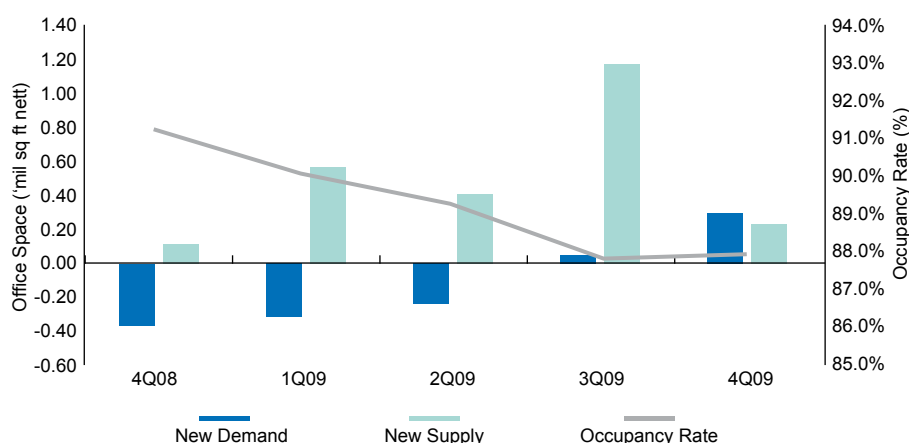
## Ease In Rental Decline

The economic recovery has led to a more stabilized office rental performance in 1Q 2010. The pace of qoq office rental decline remained moderate in 1Q 2010, ranging from 2% to 4% qoq decline for all office sub-markets.

Rents of Grade A offices in Raffles Place corrected by 3.8% qoq to average \$7.50 per sq ft. Grade A offices in Raffles Place were leased at \$6.50 psf to \$8.50 psf in the quarter, with older Grade A buildings leased in the region of \$6.50 to \$7.50 psf per month.

Rents of Grade A offices in Shenton Way/ Robinson Road/Tanjong Pagar fell by 3.3% qoq to average \$5.90 per sq ft per month, while that of Grade A offices in Orchard Road dropped by 2.6% qoq to average \$7.50 per sq ft per month. Meanwhile, office rents in Suntec/Marina/City Hall averaged \$7.70 per sq ft per month (2.5% qoq decline) in 1Q 2010. Rents in these areas reflected slightly smaller correction, due to limited new

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



Source: Urban Redevelopment Authority, Knight Frank Research

# JAN-MAR 2010/1ST QUARTER REAL ESTATE HIGHLIGHTS

completions in some of these areas in 2009, as well as a comparatively gradual rental increase in 2007.

Rents of offices in suburban locations fell by an average of 2.8% qoq in 1Q 2010, averaging \$4.57 psf per month. The fall in 4Q 2009 was similar among the three regions,

North, East and West, instead of a larger rental decline in the East in 2Q 2009 and 3Q 2009. This was unlike 1H 2009 where office space in the East saw significant rental decline due to the substantial new completions of office space like Tampines Grande and Changi Business Park.

## Outlook

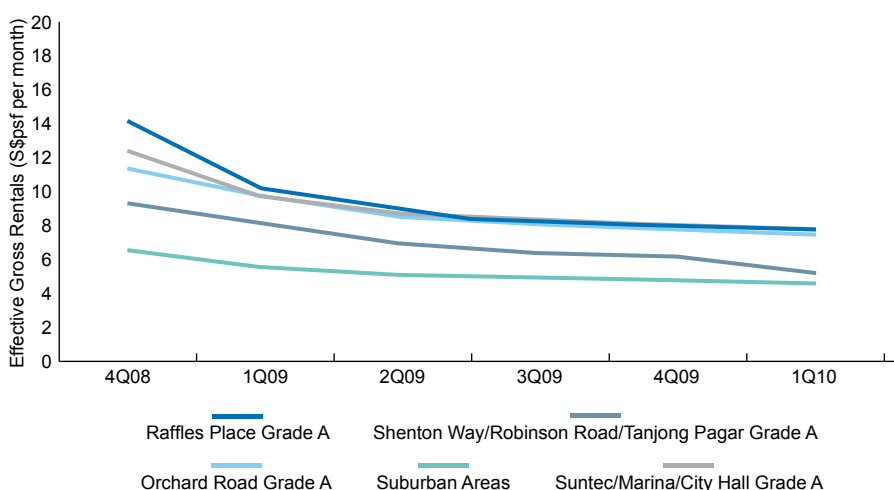
Going forward, office rentals are likely to stabilize. This will be backed by corporate expansions and positive business sentiments, where businesses are increasingly generous with financial budgets in light of economic recovery. It is also an opportune time for businesses to occupy or pre-commit office space in new, prime locations, as rents are generally more attractive than before. Additionally, shadow office space is expected to shrink, as some companies which relinquished space during the last financial crisis are re-expanding. Already, there are several companies which are considering withdrawing shadow space made available for lease in 2009 for their own use due to corporate re-expansions in 2010.

Nevertheless, significant rental recovery is unlikely due to the substantial 9.4 mil sq ft of new office supply scheduled for completion in the next three years. A flight to quality office space as companies relocate from older to newer office buildings can result in vacant office space to be predominantly older office space. A two-tier office market may emerge in prime office locations, with stronger leasing interest for newer office buildings which provide contiguous space.

If the economy continues to improve in 2011, businesses may be more willing to step up in corporate expansions. This will be seen prominently from end 2010, where new business units and organizational expansion strategies developed in 1H 2010 receive encouraging results in end 2010. This will further encourage companies to expand to bring the businesses to a higher level, and compete in leading market share. Office rents can expect to be stable or see marginal rental recovery if the economic ultimately recovers beyond 2010.

Chart 3

### Average Effective Rentals



Source: Source: Urban Redevelopment Authority, Knight Frank Research

Table 1

### Effective Monthly Rentals in 1Q 2010

Location	Effective Monthly Gross Rental (psf)
<b>CBD (Grade A)</b>	
Raffles Place	S\$ 7.30 – S\$ 7.70
Suntec / Marina Centre / City Hall	S\$ 7.50 – S\$ 8.00
Shenton Way / Robinson Road	S\$ 5.70 – S\$ 6.00
Orchard Road	S\$ 7.40 – S\$ 7.80
<b>Non-CBD</b>	
Beach Road / Middle Road	S\$ 4.70 – S\$ 5.50
Suburban (North)	S\$ 5.10 – S\$ 5.50
Suburban (East)	S\$ 3.30 – S\$ 3.70
Suburban (West)	S\$ 4.70 – S\$ 5.30

Source: Knight Frank Research



# INDUSTRIAL PROPERTY MARKET

On the whole, rents of conventional industrial space improved by 2.4% qoq in 1Q 2010. However, rents of high-tech space and business parks fell qoq by 3.0% and 3.9% respectively in 1Q 2010.

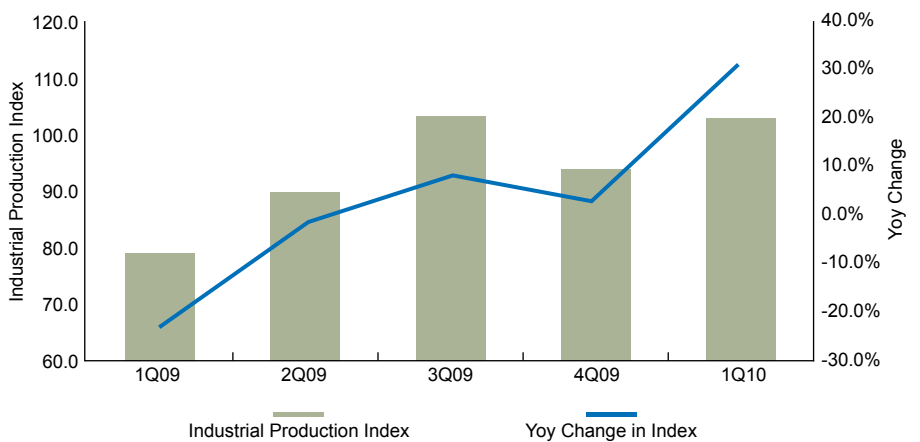
by 29% compared to the same period a year ago. However, this expansion was led by biomedical output, where output in 1Q 2010 increased by about 88% compared to 4Q 2009. The major manufacturing sectors, comprising the electronics, chemical, precision engineering clusters still experienced lower industrial output in 1Q 2010 compared to 4Q 2009.

## Recovery in Performance of Manufacturing Sector

The manufacturing sector re-expanded in 1Q 2010, after a contraction in manufacturing output in 4Q 2009. Compared to 4Q 2009, manufacturing output increased by 9.7% in 1Q 2010 whereas it increased

Nevertheless, the Purchasing Managers' Index (PMI) posted a reading of 53.3 in January and 51.9 in February 2010, and a reading of above 50 indicates that there is an expansion in orders and new export orders. The PMI expansion in February is the 10th consecutive expansion after an eight consecutive quarterly contraction. The PMI for electronics read 53.8 in January in both January and February 2010, reflecting that the

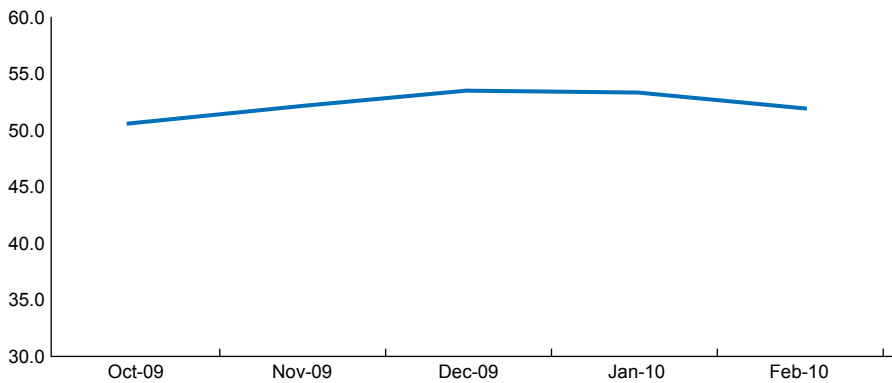
Chart 1  
Singapore's Index of Industrial Production



Source: Economic Development Board

# JAN-MAR 2010/1ST QUARTER REAL ESTATE HIGHLIGHTS

Chart 2  
**PMI**



Source: Knight Frank Research

electronics sector is generally expanding in terms of new orders from domestic and overseas markets. This was also the fourth consecutive month of expansion for the electronics sector.

## Stable Occupancy for Factory Space

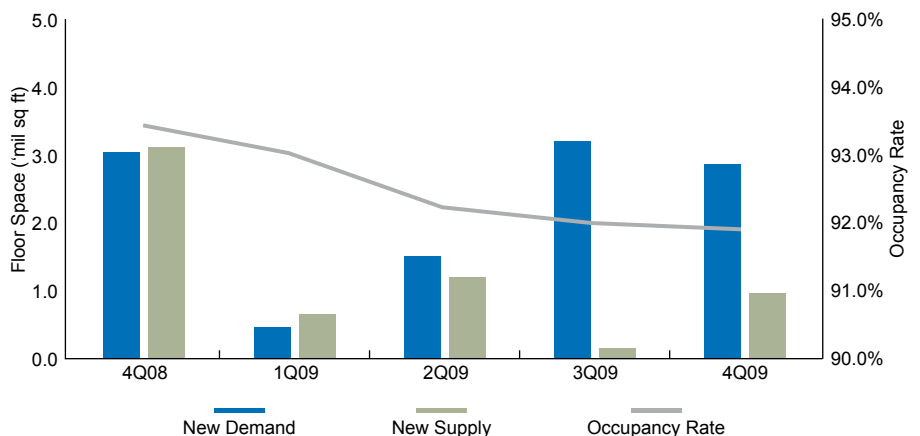
Occupancy of factory space stabilized at 91.9% in 4Q 2009, after consecutive quarterly falls in each of 1Q 2009 to 3Q 2009. This was largely due to equilibrium in new supply and new demand of factory space. Net supply of factory space totalled 3.26 mil sq ft, while net demand stood at 2.85 mil sq ft in 4Q 2009. The net supply and net demand of factory space in 4Q 2009 were also similar to that in 3Q 2009.

The occupancy of single-user factory has traditionally been more stable than that of multiple-user factory, as space in the former would only be rationalized unless economic and manufacturing conditions suffer a major dip. On the other hand, the occupancy of multiple-user factories are more susceptible to changes in manufacturers' operating environment and gives a better indication of the fluctuations in factory leasing demand. With the occupancy of multiple-user factories in 4Q 2009 improving qoq by 0.7 percentage-point in 4Q 2009, this reflects leasing demand is increasingly stable.

However, the occupancy of warehouse declined by 1.8 percentage-points to 90.0% in 4Q 2009, due to a contraction of 0.51 mil sq ft of new demand. Similarly, the occupancy of business parks, including high-tech and science parks, fell significantly qoq, by 3.4 percentage-points in 4Q 2009. It dropped from 90.3% in 2Q 2009, to 84.2% in 3Q 2009 and continued to fall to 80.8% in 4Q 2009.

Nevertheless, vacancy of business parks had hovered at 20% to 30% before 2H 2005, reflecting that the current occupancy of business parks is considered healthy.

Chart 3  
**Demand and Supply of Factory Space**  
(Private and Public Sector)



Source: Urban Redevelopment Authority, Knight Frank Research

## Rental and Price Recovery

After five consecutive quarters of sluggish rental performance, rents of conventional industrial space finally inched upwards by 2.4% qoq in 1Q 2010. The growth was uniform across the regions, Kaki Bukit, Ang Mo Kio, Macpherson/Paya Lebar and Admiralty, with rents of conventional factory space in each region increasing qoq by 2 to 2.5%. The rental recovery is within expectations, as conventional factory rental suffered declines in 1H2009 and was stagnant in 2H 2009 before economic recovery strengthened in 2010.

The positive investor sentiments were reflected in prices of conventional industrial space as well. Capital values of conventional industrial rose by 3.4% qoq in 1Q 2010, after seven consecutive quarters of decline.

While rents of high-tech industrial space and business parks continued to fall in 1Q 2010, the pace of rental correct moderated. Rents of high-tech industrial space and business park space corrected downwards qoq by 3.0% and 3.9% qoq respectively in 1Q 2010, reflecting an improvement compared to at least 5% qoq decline in each of 3Q 2009 and 4Q 2009.



## Outlook

Industrial properties are expected to enjoy modest rental and price growth in 2010. Rents can potentially recover by up to 3% in each of the following quarters of 2010, while prices of quality factory space can potentially rise by up to 5% in each of the

remaining quarters of 2010. This will be backed by an improvement in global demand for manufactures, which will encourage industrialists to offer higher occupancy costs for quality industrial space.

The prospects for conventional factory types will continue to be better than that

for business and high-tech industrial space. High-tech industrial space and business parks are expected to find it challenging to attract new tenants as rents of suburban office space, including those near major transport nodes, have become competitive. Nevertheless, some companies will continue to see business parks and high-tech industrial space as a reliable choice as rental fluctuations of high-tech industrial and business parks are more contained than conventional office space. Companies will be able to focus on core businesses and re-expansion strategies to lead in market share, instead of frequently reviewing space and relocation decisions.

The price of conventional factories is expected to improve from 2Q 2010, backed by strong investor interest. A number of industrial sites have been triggered for sale through the Government Land Sale Programmes, reflecting interest for choice industrial sites for development.

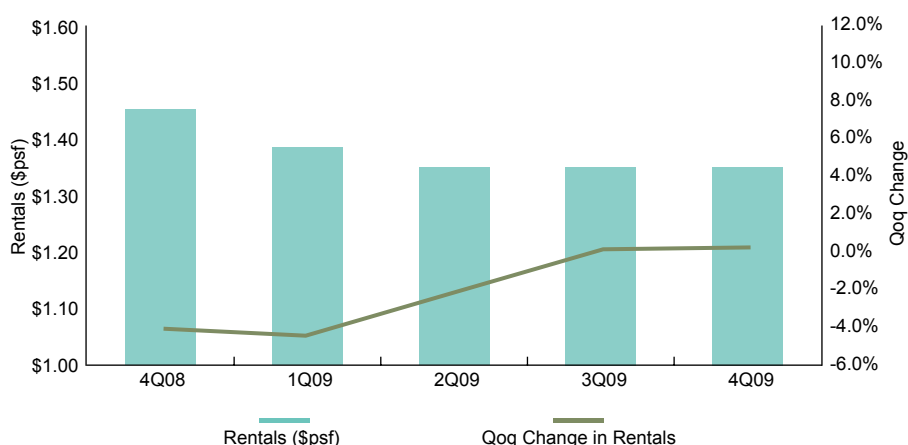
To be distinct from the rest, developers of industrial space are likely to use more competitive efforts and innovative concepts to brand factory space, leading to new forms and hybrid of industrial space. New forms of industrial developments are thus likely to continually rejuvenate, to emerge from the rest. The industrial sector can see increasing opportunities from other property sectors, such as the office, residential and retail sectors. This is particularly because the property market has been active and has structurally evolved in 2005-2007, resulting in several key innovations, trends and new industrial-related property requirements in each property sector. Providers of industrial space may be increasingly interested to identify new industrial space or back-room office requirement arising from the growth of some of these property sectors, such as retail, and strive to provide industrial space customized for these needs.

Table 1  
Rentals and Capital Values of Sample Factory/Warehouse (Upper Floors) and Business Park Space in 1Q 2010

Locality	Gross Monthly Rentals (psf)	Capital Value (psf)
<b>Conventional Industrial Space</b>		
MacPherson / Paya Lebar	S\$ 1.49 – S\$ 1.83	S\$ 175 – S\$ 305
Kaki Bukit	S\$ 1.30 – S\$ 1.60	S\$ 110 – S\$ 305 (60-year leasehold)
Admiralty	S\$ 1.05 – S\$ 1.43	S\$ 105 – S\$ 245 (60-year leasehold)
<b>High-tech Factory Space</b>		
Islandwide	S\$ 3.50 – S\$ 3.25	N.A.
<b>Business Park Space</b>		
Islandwide	S\$ 3.50 – S\$ 3.90	N.A.

Source: Knight Frank Research

Chart 3  
Factory Space Rentals



Source: Knight Frank Research

# RESEARCH



## Americas

USA  
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Brazil  
Caribbean

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Australia  
New Zealand

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UK  
Belgium  
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