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Authors

Chua Chor Hoon

Head of South East Asia
Research
+65 6393 2341
chorhoon_chua@dtz.com.sg

Lai Wyai Kay

Senior Research Analyst
wyaikay_lai@dtz.com.sg

Ng Wei En

Research Analyst
weien_ng@dtz.com.sg

Travis Seah

Research Analyst
travis_seah@dtz.com.sg

Contacts

Ong Choon Fah

Head of South East Asia
Consulting & Research
choonfah_ong@dtz.com.sg

David Green-Morgan

Head of Asia Pacific Research
david.green-morgan@dtz.com

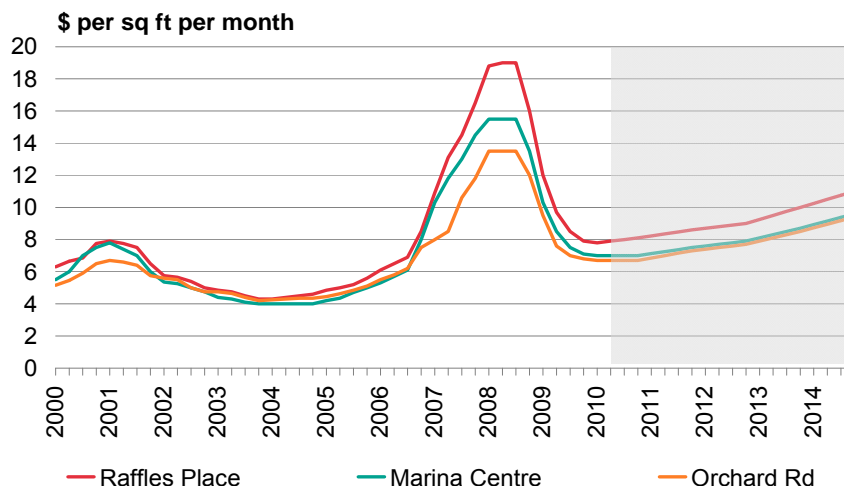
Hans Vrensen

Global Head of Research
hans.vrensen@dtz.com

- With strong economic growth forecast for 2010, the Singapore property market continued to trend upwards in the quarter.
- Office rents bottomed in Q2 2010 after having fallen 50-60% from the peak in Q3 2008. Prime office space in Raffles Place led the turnaround in rents with a 1.3% increase to \$7.90 per sq ft per month (Figure 1).
- Except for mass market homes, the rate of increase in housing prices in other segments slowed as resistance to the high asking prices and the uncertainty in the stock market sidelined buying interest in the residential market.
- Despite increasing tourist arrivals and upbeat GDP forecasts, retail rents remained unchanged largely due to the combined impact of upcoming developments and supply that came on-stream since last year.
- Islandwide private conventional industrial rents rose for the first time after falling from the peak in Q3 2008 on the back of broad-based economic growth.
- The value of investment sales rose in the quarter with more deals over \$100m each. Investments were dominated by the sale of residential sites from the Government Land Sales (GLS) programme.

Figure 1

Average office gross rents

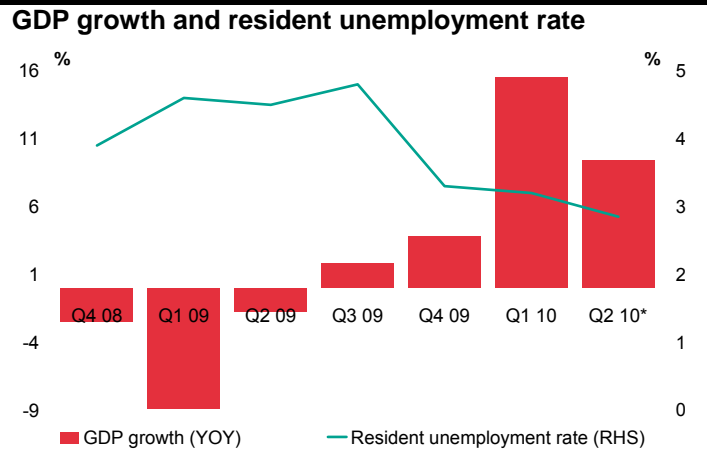


Source: DTZ Research

Economic overview

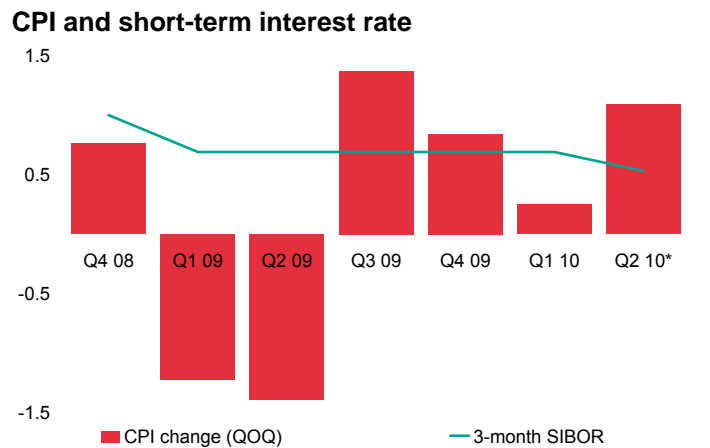
- Broad-based growth in both the manufacturing and service sectors propelled the Singapore economy to expand by 15.5% year-on-year (YOY) in Q1 2010 (Figure 2). On a seasonally adjusted annualised quarter-on-quarter (QOQ) basis, the economy expanded by 38.6% in Q1 2010.
- In line with the improving economy, the headline unemployment rate fell to a seasonally adjusted 2.2% in Q1 2010, from 2.3% in the previous quarter; resident unemployment rate was down to 3.2%, from 3.3% over the same period (Figure 2). The bulk of job gains came from the service sector.
- Manufacturing output was up 58.6% YOY in May, after gaining by 51.0% in April. On a month-on-month seasonally adjusted (MOM-SA) basis, growth rates eased to 5.2%, following a 24.3% surge in April.
- Non-oil domestic exports (NODX) were also up, rising 24.0% YOY in May, after April's 30% increase. However, on a MOM-SA basis, NODX fell a marginal 0.1% in May, pulling back from a 2.5% growth in the previous month.
- The 3-month interbank rate fell in Q2 2010, declining from 0.69% in March to 0.53% in June (Figure 3).
- The CPI was up 1.8% YOY in the first five months of the year. Concerned with rising inflationary pressures, the Monetary Authority of Singapore (MAS), in its last review of the Singapore dollar in April, has re-centred the policy band for the trade weighted exchange rate upwards and shifted its stance to a gradual and modest appreciation of the currency.
- The Ministry of Trade and Industry has revised its forecast for the economy to grow by 7.0% to 9.0% in April, up from an earlier projection of 4.5% to 6.5%. This could be revised higher based on Q2 2010 economic growth.
- In its most recent poll of economists/analysts conducted in May by the MAS, the economy was expected to grow 9.0% in 2010, up from the median 6.5% banded in the previous survey in March.
- While fundamentals of the local economy are robust, Singapore remains susceptible to an uneven recovery in the global economy. Financial contagion in Europe, weak growth in the USA and potential slowdown in China are immediate concerns.

Figure 2



Source: *Oxford Economics, MTI, DTZ Research

Figure 3



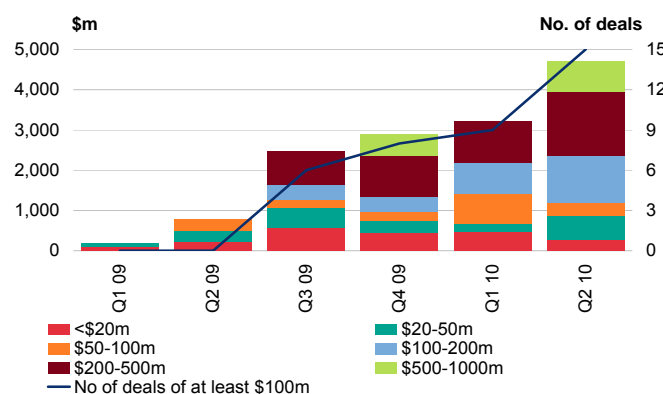
Source: *Oxford Economics, MAS, DTZ Research

Investment

- Overall investment sales for Q2 2010 posted a 64.1% increase over Q1 2010 to hit \$4.71bn. This excludes \$2.34bn of transactions in single residential units or lots that cannot be redeveloped/subdivided into more than one plot, as well as deals that are deemed to be interested person/party transactions.
- 15 deals over \$100m each, totalling \$3.52bn, accounted for nearly three-quarters of total investment value in Q2 2010. This is considerably higher than the 55.5% that 9 transactions of over \$100m each contributed to total investment in Q1 2010 (Figure 4).
- The bulk of investments in Q2 2010 were noticeably geared towards government sale of sites. 11 of the 15 deals above \$100m were for sites released under the GLS programme.
- Residential investments made up the bulk, or 58.3%, of total transactional value. This was powered by a record breaking quarter in GLS residential sites, which totalled \$1.85bn in Q2 2010 – surpassing the \$1.51bn record set in the last quarter of 2007.
- The sale of a white site at Jurong Gateway propelled investments in mixed-used properties to second position in Q2 2010 (Table 1). Investment in this sector is expected to be prominent in H2 2010 as two mixed-use GLS sites at Stamford/North Bridge Road and New Upper Changi Road/Bedok North Drive have already been launched for tender. Another four mixed-used sites (including two white sites) are in the confirmed and reserve lists of the GLS programme in H2 2010.
- Investments in industrial properties shrank in Q2 2010, with only 9.3% or \$438.50m of total transactions. This was in contrast to Q1 2010 when transactions in industrial properties dominated. The absence of any large scale acquisitions by REITs in Q2 2010 contributed to a 59.4% quarter-on-quarter (QOQ) drop in investment values in the sector.
- Also down were transactions in office properties, which fell 39.5% QOQ to \$266.10m. The only notable transaction negotiated in Q2 2010 was a deal brokered by DTZ for Marina House (Table 1).
- Investments in non-residential properties are expected to gather pace in the coming quarters as some industrial properties are in the process of being acquired for injection into new REITs, while tenders for a number of private commercial properties, such as Chow House, have been launched.
- Investments in the property sector continued to be dominated by domestic developers and investors. However, there is a growing presence of Asian firms from China and Malaysia in recent GLS tenders.
- With Asian pension funds looking to increase returns through alternative investments in real estate as well as the prospects of a rising yuan, the main source of foreign investments is expected to be from within Asia.

Figure 4

Investment sales by sectors



Source: DTZ Research

Note: Investment sales comprise transactions that are at least \$5m each.

Table 1

Significant deals

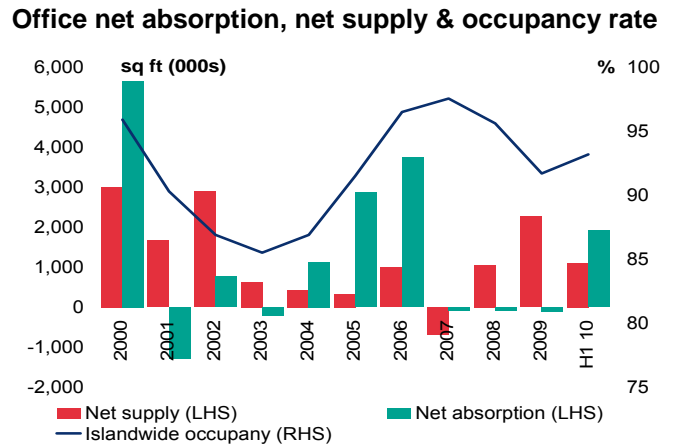
Address	Purchaser	Vendor	Price (\$m)
Jurong Gateway (white site)	Asia Retail Investment Fund/Lend Lease	Government	748.89
Boon Lay Way/Lakeside Drive (residential site)	Keppel Land (Mayfair) Pte Ltd	Government	302.98
The Cascadia (162 units)	Alpha Investment Partners	MGPA	247.50
Marina House	JV (comprising Roxy Pacific Holdings, Macly Capital, Pinnacle Assets, Fission Holdings and Chee Hsian Sing)	Hong Leong Group	148.0
Pender Court	Hoi Hup Realty Pte Ltd	Collective sale	95.0

Source: DTZ Research

Offices

- The islandwide office occupancy rose by 0.8 percentage point to 93.2% in Q2 2010 as a result of growth in broad-based demand from all business sectors led by banks and financial institutions (Figure 5).
- On the back of strong economic recovery, a large number of new leases signed in the first half of the year involved companies taking up expansion space.
- Previous concerns on older existing buildings hollowing out when tenants relocate to new buildings have eased as some of these tenants have since decided to retain existing space for expansion.
- On the other hand, new set-ups are increasing in number as companies take advantage of business opportunities in Asia where growth prospects are the strongest.
- Office rents bottomed in Q2 2010 after having fallen 50%-60% from the peak in Q3 2008. Average rental values held firm for offices across the island in Q2 2010, except for prime offices in Raffles Place which led the recovery with a 1.3% QOQ increase to \$7.90 per sq ft per month (Figure 6).
- Newer and better quality office buildings in the Central Business District are expected to lead the recovery in rents as occupiers take the opportunity to lock in attractive rents for prime office space.
- The recovery in rents for older building or those from secondary locations is likely to lag by 1-2 quarters as occupiers relocate to better quality buildings.
- A quick rebound in office rents is not expected as there will be ample supply of about 6.85 million sq ft between H2 2010 to 2012, notwithstanding that some 1.2 million sq ft or more of old buildings may be removed from the current stock for redevelopment.
- A stronger rate of increase in rents is likely to be seen in 2013 and 2014 as there will be significantly less new supply (Figure 7). The supply is unlikely to be topped up quickly as it usually takes about 4-5 years for sites on the GLS programme to be sold and developed due to the large size of each development.

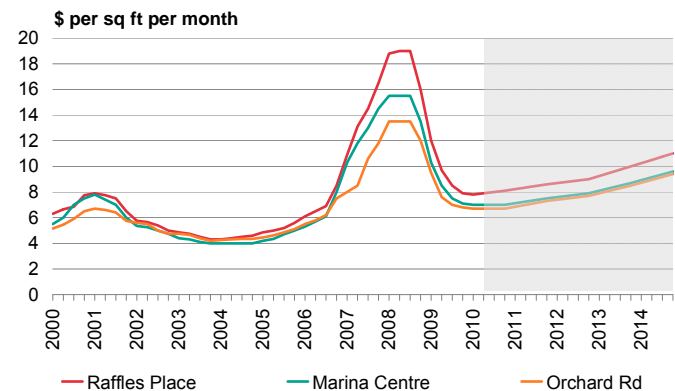
Figure 5



Source: DTZ Research

Figure 6

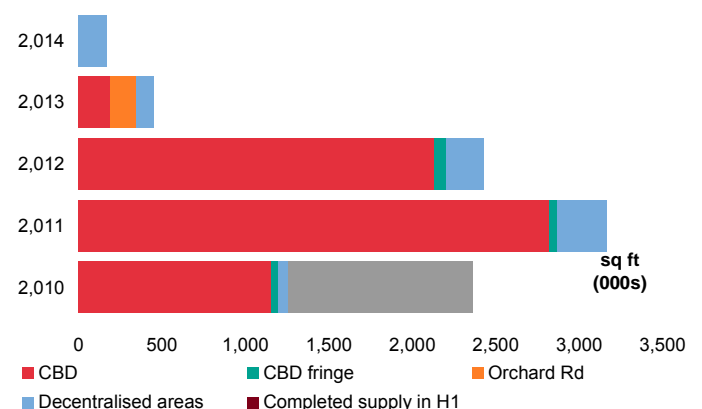
Average office gross rents



Source: DTZ Research

Figure 7

Office development pipeline

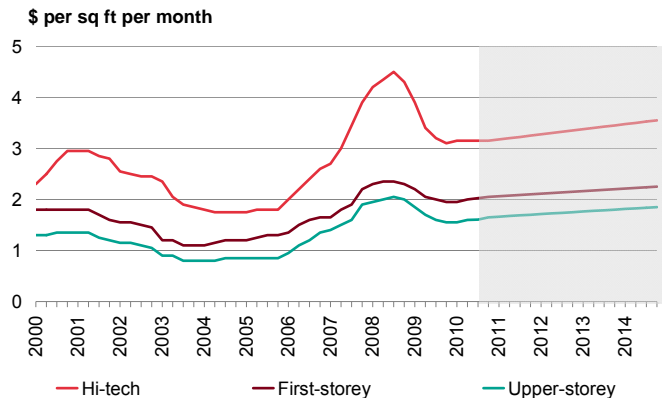


Source: URA, DTZ Research

- Private industrial rents rose for the first time after falling from the peak in Q3 2008. Average monthly gross rents of first-storey private industrial space edged up 2.6% QOQ in Q2 2010 to \$2.00 per sq ft and 3.2% to \$1.60 per sq ft for upper-storey space (Figure 8).
- Since the height in Q3 2008, average monthly gross rents of first-storey and upper-storey private industrial space have fallen 14.9% and 22.0% respectively.
- Rents for hi-tech industrial properties, which include business and science parks, were unchanged at \$3.15 per sq ft per month in Q2 2010. Rents in Q2 2010 were 30.0% below the peak in Q3 2008.
- The narrow rental gap between decentralised offices and hi-tech industrial space provides little impetus for upward movement of hi-tech industrial rents. Hi-tech industrial rents in Q2 2010 were only 10% lower than office rents in Tampines Finance Park which averaged \$3.50 per sq ft per month.
- Capital values of private industrial space continued to climb upwards for the fourth consecutive quarter but at a slower pace. Average capital values of first-storey and upper-storey conventional freehold industrial space have inched up by 1.0% to \$510 per sq ft and 2.9% to \$350 per sq ft QOQ, compared to 2.0% and 4.6% increase in Q1 2010 respectively.
- On the REIT front, Mapletree Logistics Trust is in the process of sealing the acquisition of a distribution centre, "Natural Cool Lifestyle Hub", via a put and call option agreement with a price tag of \$53m.
- Four industrial GLS sites were awarded in Q2 2010. With successful bids ranging from \$71 to \$77 per sq ft per plot ratio for 30 to 60 years tenure, these signal the strong market confidence in the industrial sector fuelled by robust export performance.
- Industrial rents are likely to continue to increase but at a slow pace given the stream of approximately 15 million sq ft of private industrial space in the pipeline over the next one and a half years (Figures 8 and 9 and Table 2).
- However, hi-tech rents are expected to be largely unchanged throughout the year due to a substantial amount of business park developments expected to be completed in the second half of the year and competition from office buildings in secondary locations (Table 2 and Figure 8).

Figure 8

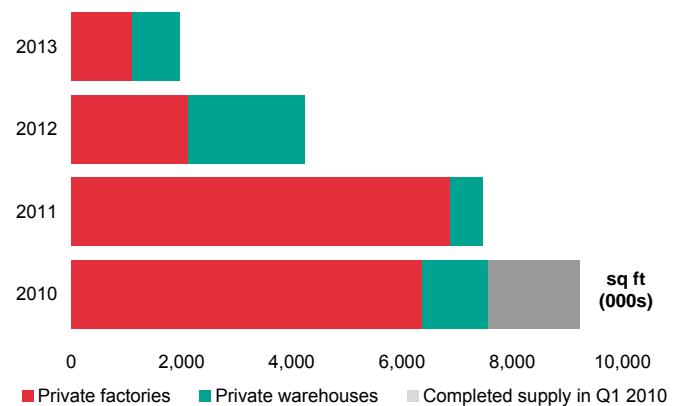
Average industrial gross rents



Source: DTZ Research

Figure 9

Private industrial development pipeline



Source: URA, DTZ Research

Table 2

Major upcoming industrial projects

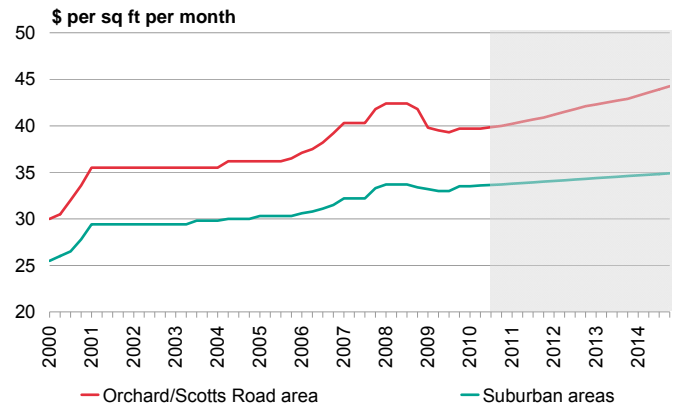
Name of development	Est NLA (sq ft)	Est TOP year
Biopolis Phase 3	363,000	2010
Solaris (Fusionopolis Phase 2B)	386,000	2010
One Commonwealth	246,000	2010
Midview City	1,132,000	2011
UE BizHub	419,000	2012
Biopolis Phase 4	353,000	2013

Source: DTZ Research

- Islandwide retail stock stood at 33.6 million sq ft in Q2 2010 with the completion of the subterranean retail space at Esplanade Xchange and the much anticipated opening of The Shoppes at Marina Bay Sands.
- Notwithstanding record tourist arrivals and higher retail sales (excluding motor vehicles), the dramatic increase in retail space last year has intensified competition amongst retailers for consumers who have become more selective in their purchases. Retailers, particularly in the new malls, are adjusting to the vagaries of consumer preferences, resulting in early termination of leases in some cases.
- Gross retail rents at Orchard/Scotts Road remained unchanged for the second straight quarter as retailers' performance was mixed in the light of new supply that came on-stream in 2009. Gross rents of prime first-storey retail space in Orchard/Scotts Road stood at \$39.70 per sq ft per month; upper-storey rents stayed at \$20.50 per sq ft per month (Figure 10).
- Bearing the brunt of over 815,000 sq ft of space that were completed in the quarter in other city areas, gross rents contracted. Prime first-storey rents in other city areas fell marginally by 0.4% quarter-on-quarter (QOQ) to \$24.30 per sq ft per month while rents for upper-storey space dipped 0.7% QOQ to \$13.90 per sq ft per month.
- Suburban malls with their own catchment and mass market offerings performed better than their city rivals. First-storey rents in suburban areas increased 0.3% QOQ to \$33.60 per sq ft per month; upper-storey rents edged up 0.4% QOQ to \$22.90 per sq ft per month.
- While the bulk of the pipeline supply from H2 2010 to 2013 will be in suburban areas (Figure 11), downward pressure on suburban rents is not foreseen as the new supply is spread over the island serving different local catchments.
- Rents in other city areas are expected to remain pressured by developments at Marina Bay (Table 3). This year's new supply is estimated at 940,000 sq ft, with another 300,000 sq ft of space expected from 2011-12.
- However, as new supply in the Orchard/Scotts Road area tapers off in the next two years, rents there are expected to trend gently upwards (Figure 10).

Figure 10

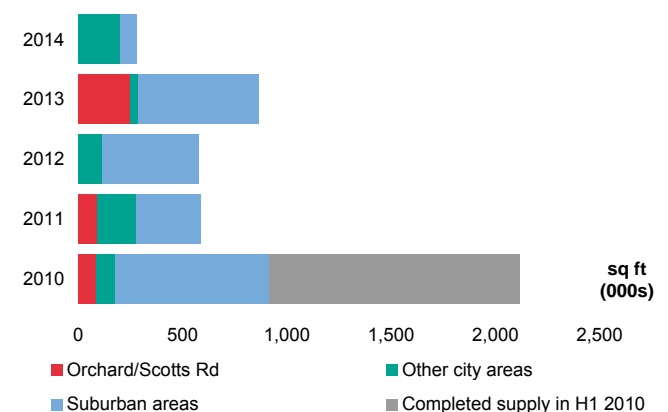
Average prime first-storey retail gross rents



Source: DTZ Research

Figure 11

Retail development pipeline



Source: URA, DTZ Research

Table 3

Selected upcoming retail projects

Name of development	Est NLA (sq ft)	Est TOP Year
nex	618,000	2010
Clementi Mall	193,800	2011
Gardens by the Bay	103,300	2011
Marina Bay Link Mall II	82,200	2012
Redevelopment of former Hotel Phoenix/Specialists' Shopping Centre and Orchard Emerald	135,700	2013
Sports Hub	200,200	2014

Source: URA, DTZ Research

Residential

- Market activity picked up in April but slowed in May and June as buyers kept to the sidelines due to the high asking prices and uncertainty in the economic recovery of Europe and the US. Primary sales volume for April stood at 2,208 units, second only to the highest monthly record of 2,772 units that was achieved in July 2009.
- The take-up rate of units launched by developers hit almost 106% for April before declining to 95% in May. Major developments launched included those on land sold under the GLS programme in H2 2009 (Table 4).
- The pace of increase in resale home prices slowed in the quarter except for leasehold homes in the suburban areas. Prices of suburban leasehold homes rose by 4% QOQ to \$648 per sq ft, compared to the 2.1% in the previous quarter. This was the result of comparatively higher prices of new developments and aggressive bids for GLS sites in the suburban areas (Table 5).
- Within the prime districts of 9, 10 and 11, average resale prices of freehold non-landed homes rose 2.6% QOQ to a new high of \$1,493 per sq ft, 0.7% higher than the previous record of \$1,483 per sq ft in Q4 2007. Meanwhile, prices of freehold non-landed resale homes outside the prime districts equalled its Q4 2007 peak of \$747 per sq ft after climbing 2.9% QOQ.
- Average prices for luxury non-landed homes, despite increasing 3.5% QOQ to reach \$2,588 per sq ft, are still 7.6% off the Q4 2007 record level of \$2,800 per sq ft.
- Landed resale homes also saw prices grow at a lower rate of 1-3% compared to the 2-6% increase in the previous quarter.
- The rental market saw a slight recovery as average rental value of non-landed homes in the prime districts marginally increased by 1.1% to \$3.35 per sq ft per month. In non-prime areas, average rents of non-landed homes held firm at \$1.75 per sq ft per month.
- Price increase of non-landed homes in 2010 is expected to remain similar to the earlier forecast of 5-15%, with the luxury segment showing more upside (Figure 12). The unprecedented high number of suburban sites to be sold in the H2 2010 GLS is likely to keep a check on prices of mass market homes going forward.

Table 4

Selected new launches in Q2 2010

Name of development	Tenure	Estimated no. of units launched	Median sale price (\$ per sq ft)
Waterbank at Dakota	99 yrs	616	1,092-1,178
Tree House	99 yrs	429	835
The Minton	99 yrs	300	849
The Interlace	99 yrs	230	1,067
Flamingo Valley	FH	120	1,259
The Cascadia	FH	90	1,464

Source: DTZ Research

Table 5

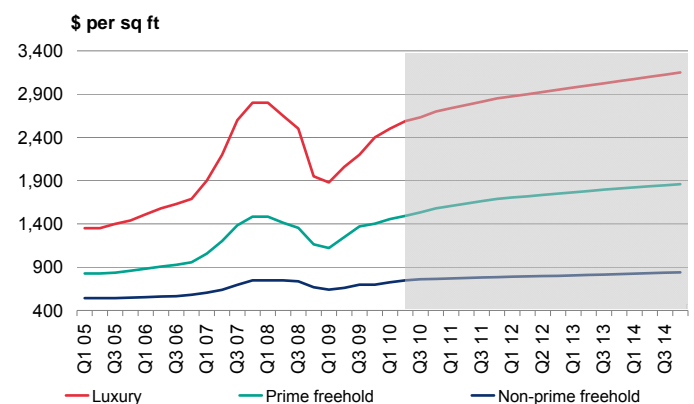
Average capital values (non-landed resale)

	Q2 2010 (\$ per sq ft)	QOQ change (%)
Prime freehold	1,493	2.6
Prime leasehold	1035	2.8
Others freehold	747	2.9
Others leasehold	648	4.0

Source: DTZ Research

Figure 12

Average non-landed resale capital values



Source: DTZ Research

Key statistics

Table 6

Markets								
	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010	QOQ change (%)	YOY change (%)	Directional outlook
Office								
Average monthly gross rents (\$ per sq ft per month)								
Raffles Place	9.70	8.50	7.90	7.80	7.90	1.3	-18.6	▲
Marina Centre	8.50	7.50	7.10	7.00	7.00	0.0	-17.6	↔
Orchard Road	7.60	7.00	6.80	6.70	6.70	0.0	-11.8	↔
Industrial								
Average monthly gross rents (\$ per sq ft per month)								
First-storey	2.05	2.00	1.95	1.95	2.00	2.6	-2.4	▲
Upper-storey	1.70	1.60	1.55	1.55	1.60	3.2	-5.9	▲
Hi-tech	3.40	3.20	3.10	3.15	3.15	0.0	-7.4	↔
Retail (prime first-storey)								
Average monthly gross rents (\$ per sq ft per month)								
Orchard/Scotts Road	39.50	39.30	39.70	39.70	39.70	0.0%	0.5%	↔
Suburban area	33.00	33.00	33.5	33.50	33.60	0.3%	1.8%	▲
Residential (non-landed resale)								
Average capital values (\$ per sq ft)								
Luxury	2,060	2,200	2,400	2,500	2,588	3.5	25.6	▲
Prime freehold	1,247	1,370	1,403	1,456	1,493	2.6	19.8	▲
Non-prime freehold	660	697	697	726	747	2.9	13.2	▲

Source: DTZ Research

Table 7

Leasing transactions			
Address	Size (sq ft)	Tenant	Sector
Ocean Financial Centre	93,000	Drew & Napier	Office
Marina Bay Financial Centre Tower 2	37,000	Prudential Asset Management (Singapore)	Office
71 Robinson Road	30,000	Sungard	Office
Marina Bay Financial Centre Tower 1	22,000	Societe Generale	Office
One Raffles Place Tower One	9,000	Regus Business Centre	Office
Tuas Connection	35,000	TPT Multiplex	Industrial
Solaris (Business Park)	32,000	Ubisoft	Industrial
Golden Agri Plaza	16,000	Pfizer	Industrial
Rochester Mall	4,500	Montessori	Retail

Source: DTZ Research

Definitions

Development pipeline/potential supply

Comprises two elements:

1. Floorspace in the course of development, defined as buildings being constructed or comprehensively refurbished.
2. Schemes with the potential to be built in the future, having secured planning permission/development certification.

Net absorption

The change in the total occupied or let floorspace over a specified period of time, either positive or negative.

Net supply

The change in the total floorspace over a specified period of time, either positive or negative. It excludes floorspace that are not available for occupation due to refurbishment or redevelopment, but includes new supply.

New supply refers to total floorspace/units which are ready for occupation. Ready for occupation means practical completion, where either the building has been issued with a Temporary Occupation Permit or Certificate of Statutory Completion (CSC).

Prelet/pre-commit

A development leased or sold prior to completion.

Prime rent

The highest rent that could be achieved for a typical building/unit of the highest quality and specification in the best location to a tenant with a good (i.e. secure) covenant.

(NB. This is a gross rent, including service charge or tax, and is based on a standard lease, excluding exceptional deals for that particular market).

Stock

Total accommodation in the private sector both occupied and vacant.

Take-up

Floorspace acquired for occupation or investment, including the following:

1. Offices let to an eventual occupier.
2. Developments pre-let or sold.

(NB. This includes subleases.)

Take-up also refers to units transacted in the residential market.

Occupancy rate

Total space currently occupied or not available to let as a percentage of the total stock of floorspace.

(NB. This excludes shadow space which is space made available for sub-leasing).

Contacts

Business Space (Office/Industrial)

Cheng Siow Ying	+65 6393 2323	siowying_cheng@dtz.com.sg
Chua Wei Lin	+65 6393 2326	weilin_chua@dtz.com.sg

Occupier Services

Angela Tan	+65 6393 2333	angela_tan@dtz.com.sg
Tina Wong	+65 6393 2511	tina_wong@dtz.com.sg

Retail

Edmund Tie	+65 6393 2388	edmund_tie@dtz.com.sg
Anna Lee	+65 6393 2378	anna_lee@dtz.com.sg

Investment Advisory

Ho Tian Lam	+65 6393 2338	tianlam_ho@dtz.com.sg
Shaun Poh	+65 6393 2384	shaun_poh@dtz.com.sg

Residential

Edmund Tie	+65 6393 2388	edmund_tie@dtz.com.sg
Margaret Thean	+65 6393 2383	margaret_thean@dtz.com.sg

Auction

Shaun Poh	+65 6393 2384	shaun_poh@dtz.com.sg
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Consultancy

Ong Choon Fah	+65 6393 2318	choonfah_ong@dtz.com.sg
Ng Poh Chue	+65 6393 2515	pohchue_ng@dtz.com.sg

Hospitality

Edmund Tie	+65 6393 2388	edmund_tie@dtz.com.sg
Heng Hua Thong	+65 6393 2398	huathong_heng@dtz.com.sg

Project, Facilities & Property Management

Heng Hua Thong	+65 6393 2398	huathong_heng@dtz.com.sg
Philip Leow	+65 6417 9228	philip_leow@dtz.com.sg
Kwok Sai Kuai	+65 6417 9229	saikuai_kwok@dtzpmgt.com.sg

Resale

Thomas Lee	+65 6725 3989	thomas_lee@dtzresale.com.sg
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Valuation

Poh Kwee Eng	+65 6393 2312	kweeeng_poh@dtz.com.sg
Nicholas Cheng	+65 6393 2317	nicholas_cheng@dtz.com.sg

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