

Monthly Property Market Update for July 2008

Traditionally, July is a time for reflection. And when profit-making organisations are concerned, it is the time to balance the book and see whether the ultimate objective of business was met (or how much catching-up needs to be done). For the real estate sales industry, it is no different. Many official data is made available in mid-July to help all concerned parties in their performance analysis for the first half of the year.

July 2008 ushered in a mixture of both uplifting as well as dampening news, as the larger global economy is still on tenterhooks. The situation in the global financial market is extremely fluid, and volatility seems to be the order of the day in the stock markets all around the world. At times, it appeared like the entire stock market was going to crash land; but other times, it rallied like the sub-prime problems never existed in the first place.

It seems a foregone conclusion that the world economy is turning bad; but at this moment, it is still anybody's guess as to the extent of the damage the on-going financial crisis has inflicted on the economy. The world is still bracing itself for some really bad news that might redefine the world order and the ultimate Who's Who list. We just have to adopt an open mind that 'anything is possible'.

(A) The big picture of the larger economy

While the Singapore economy and the domestic real estate market fundamental remain resilient and generally sound, due to the openness, thus vulnerability, of the Singapore's economy to the larger global environment, external events continue to dictate the market behaviours in the island city – be it the stock market movements or the buying behaviours in the new spanking show flats.

In order for me to provide a meaningful explanation of the current market situation it is worthwhile to look at the summary of the external events in July 2008.

[A.1] US economy is growing – but do not read too much into the figure

After a GDP growth of 1% in the first quarter, the US government is set to announce another growth of 2% in the second quarter. Thus, a recession under the most common definition – two straight quarters of declining GDP – did not occur in the first half of 2008 – contrary to what many had deduced.

However, other qualitative indicators are showing damning evidence that all is not well for the US economy. Home prices are holding on to a slippery rope with a pair of sweaty palms, unemployment rate is growing like a genie freshly out of the bottle, and the stock market is rocking like a fishing boat caught in the perfect storm.

All these signs are pointing towards a strange situation whereby the US economy might be gaining fat but losing muscle.

In fact, the non-profit National Bureau of Economic Research (NBER) had said that the US has been 'sliding into a recession' since January 2008. NBER uses a different gauge to monitor the health of the economy. It looks for 'a significant decline in economic activity spread across the economy, lasting more than a few months'.

Those gauges include GDP, incomes, employment, industrial output and retail and manufacturing sales, and most of those gauges have been especially weak in recent months and some are in outright decline.

[A.2] Recession in US looms larger as job losses continue

The US has suffered six straight months of job losses when it lost 62,000 jobs in June 2008. The number of unemployed people in the US now stands at 8.5 million. At the same time last year, seven million people were unemployed.

So far this year, a total of 438,000 jobs were lost – an average of 73,000 a month. Most of the jobs were lost in the following sectors, including construction, manufacturing, financial services and retailing. The small gain in education, health, leisure, hospitality, and the government sectors was not sufficient to compensate for the greater losses.

The Institute for Supply Management's index showed that the service sector, which has been a growth engine in recent years, fell to 48.2 in June from 51.7 in May. A reading below 50 signals activity is shrinking, while a reading above that suggests activity is expanding.

Furthermore, more write-downs by financial institutions in the US are expected in the coming weeks and many of them are expected to report greater losses. All these will drain the system of much needed capital. With less capital to go around, banks would be more weary of lending and ultimately it will impact on economic growth.

- [A.2.1] US billion-dollar bankruptcies highest since 2003

The ongoing US economic troubles have caused more firms with a billion dollar or more in assets to go bust. So far this year, a total of seven such companies have folded compared to only one in 2007.

And economists fear that more bankruptcy suits will follow as firms continue to reel in this difficult time.

- [A.2.2] Sales of existing US homes decline to 10-year low

The volume for resale homes in the US dropped 2.6% in June to 4.86 million, the lowest in 10 years. And the number of unoccupied homes stood at 18.6 million.

With unemployment rate rising to hit over 5% in the second quarter, coupled with low consumer confidence and the mortgage crisis that looked like a bad itch that just would not go away, the US residential property market looks likely to be in the doldrums for some time to come at least until 2009 or 2010.

[A.3] Fed likely to keep interest rates on hold for a while

Economists are mostly in agreement that the US Fed will most likely maintain the interest rate at the current 2%.

Although there is a valid case for the Fed to increase the interest rate to beat down the menacing inflation, other tougher challenges may present a more pressing demand for the rate to remain at status quo.

Firstly, the economy is still fighting against the more dreaded situation, i.e. recession. A higher cost of using money might tip the sinking boat the wrong way.

Next, the tight credit situation and the on-going housing crisis, which has so far inflicted almost every other household in the US, call for a pair of steady hands to balance the delicate situation.

Last but not least, the easing of energy prices in recent weeks may be able to bring the much needed respite on inflationary pressure.

[A.4] Oil prices start to fall and US dollar strengthens

As the US dollar begins to strengthen, the price of oil drops as investors moved their funds away from oil. The dollar traded at US\$1.5688 to the euro recently, while against the yen, it appreciated 0.4% to 107.84 yen.

Since 11 July 2008, oil has fallen 16% and when asked if this will cause OPEC to cut down on production volume, an OPEC official said that it would be most highly unlikely. The top priority would be to ensure that supply could meet demand.

[A.5] IMF pessimistic about US housing crisis

The IMF has warned that there is no end in sight to the US housing recession and warned that deteriorating credit conditions for consumers and banks may prolong a period of slow economic growth. And it stood by its April forecast of about US\$1 trillion (S\$1.36 trillion) in losses stemming from the US sub-prime mortgage crisis as foreclosures will continue to rise.

In this regards, it is worthwhile to look at the performance of Merrill Lynch which Singapore's Temasek has recently injected more funds in bid to rescue the bank.

- [A.5.1] Merrill Lynch's woes far from over

As expected, Merrill Lynch's problem seems to be getting worst. Barely two weeks after announcing a second-quarter loss of US\$4.9 billion and a US\$9 billion write-downs, it has now said that it will take another huge write-down of US\$5.7 billion for the third quarter. It also said that it will raise a further US\$8.5 billion by issuing new stocks as well as selling a huge slice of its debt portfolio. In this regard, it has agreed to sell US\$30.6 billion of collateralised debt obligations (CDOs), a kind of repackaged debt, to an affiliate of private equity fund Lone Star Funds for just US\$6.7 billion, or about 22 US cents on the dollar.

Merrill has lost US\$19.2 billion in the past year alone and suffered over US\$40 billion of write-downs. And it seems there is no end in sight for the beleaguered bank's troubles.

- [A.5.2] Singapore Temasek playing Santa Claus

Back in December 2007 Merrill had sold to Temasek some US\$4.4 billion at US\$48 a share but with a caveat that it would compensate Temasek should the share price fall.

After the months of free-fall in Merrill's share prices, the US banking giant now had to compensate Temasek to a tune of US\$2.5 billion which was taken out from the US\$8.5 billion that Merrill had succeeded in raising in its latest share issue. Fortunately though, Temasek has agreed to plough back the US\$2.5 billion into Merrill. The latest purchase will put Temasek's share of Merrill to more than 10%.

Analysts said that for Temasek it is a sound strategic move to gain access into the US financial market and it is an opportunity that is not going to be repeated. For the long-term, this investment might just prove to be a very good one.

[A.6] Singapore Central Bank up vigilant level

In an apparent move to cater to the volatility in the financial market, the Monetary Authority of Singapore (MAS) will allow more banks to access its standing facility. Despite the authorities' denial that something 'isn't right' in the financial market, such a forward planning does suggest that the financial market is not without some unusual

challenges. Officially, the MAS explained that the standing facility is to strengthen Singapore's financial system as well as improve liquidity.

The Standing Facility allows banks to place excess funds with or borrow from MAS against Singapore Government Securities (SGS) collateral. It is currently open to the 11 primary dealer banks - the most active banks in the Singapore dollar money market, and non-primary dealer banks could access the facility through them. It will now extend the facility to all banks that are using the MEPS+ (MAS Electronic Payment System), which is a national interbank payment system that allows participants to make immediate settlement of funds and SGS transactions.

[A.7] Singapore economy continues to grow

Economic activity continues to expand in Singapore despite all the uncertainty that prevails around the world. The overall expansion in May 2008 was driven by higher lending to businesses and consumers.

According to MAS data, bank lending for the month of May was at a record \$256.9 billion, or 26.1% compared to the same month a year ago. And month-on-month, loans growth gathered momentum to reach 2.3%, a pick-up from April's indifferent 0.6% growth, due mainly to increased lending to the transport, storage and communication sector.

Despite the strong growth in the bank lending however, the MAS is unlikely to change its tight monetary to fight inflation. For example, the supply of money in the domestic economy actually dipped 1.2% to \$314.5 billion at the end of May.

Central banks in most of Asia have been urged to tighten monetary policy, either by raising interest rates or allowing currencies to strengthen, to prevent runaway inflation.

- [A.7.1] Singapore capital markets raised \$76b in net funds last year

The Singapore capital markets, where debts or equity securities are traded in either the stock market, bond market or the money market, had their good run for the money last year, raising \$22.7 billion in the whole of 2007.

But the outlook for 2008 is not so rosy due to the global credit crisis. In the first quarter of 2008, the total net funds raised, including both the private and public sectors' were only \$14 billion. At that rate, total capital raised this year will never be able to match last year's figure.

Net funds, including the private and public sectors', totalled just over \$14 billion in the first quarter of this year, compared with last year's total of \$75.6 billion [and the \$40 billion raised in 2006].

However, the total assets handled by fund managers in Singapore grew 32% to \$1.17 trillion last year, bolstered by a doubling in assets held by hedge funds. One reason is because Asia-Pacific continues to be a key driver of growth for the industry.

- [A.7.2] More home owners owing more than \$1m

Another factor contributing to higher lending by banks, even though the number of first time home loan borrowers dropped, is the two-fold increase in the number of borrowers who owe more than a \$1 million on their home loans. The number of such millionaire borrowers has doubled to 8,280 in April 2008, from 4,695 in May last year.

The property boom of 2007 and that higher transaction number of luxury apartments have contributed to the increase in loan quantum of individuals.

The good news from Credit Bureau is that the number of home buyers getting into problems continues to fall. In April 2008, 4,102 borrowers were delinquent or 1.42 %, down from 2.10 % in May last year.

[A.8] The new challenge of higher jobless rate

However, with the weakening of the global economy and the uncertainties it brought, firms in Singapore are now more reluctant to hire as readily as last year. Herein lies the danger.

Singapore's jobless rate rose to 2.3% in the second quarter of the year compared to 2% in the first three months of the year.

The smaller percentage rise suggests that the labour market is still tight but is now proceeding at a more sustainable rate. This slight fall may indeed lessen inflationary pressure brought about the high costs of labour.

In general, while large scale retrenchments are unlikely to occur, the jobless rate may continue to rise in the coming months due to the uncertainties in the global economy.

[A.9] Continuous challenges posed by inflation

The consumer price index (CPI) for June 2008 rose 7.5% compared to the same month last year. The index has been driven by a hefty rise in housing which rose 13.4% due to higher electricity tariffs, and higher food prices.

The high oil price has translated to a more costly transport and communication costs with that sector rising 5.1%. Meanwhile, healthcare too was getting pricier.

Analysts said that with this latest data, the government's projection of 5-6 per cent inflation rate for the full year will most likely be revised upwards to a more plausible 6.5%.

- [A.9.1] Condo land falling below building costs

Due to the breath-taking inflation, construction costs have now overtaken the land cost for some 99-year condo sites.

And with unit sale price set to drop further, developers may have no choice but to bid even lower for land to maintain their dwindling profit margin. However, whether the government is inclined to lower the prices of state land for sale remains to be seen.

Currently, developers are still bidding around the \$200 psf to \$250 psf price range for most mass-market condo sites. At this level, the break-even cost is around \$650-\$700 psf.

For medium-quality condominiums, the construction costs range from \$260 psf to \$320 psf in Q1 2008, and prices have risen further to \$280 to \$350 psf for Q2 2008. Construction costs are estimated to have risen 20% to 25% for Q4 2007 compared with the corresponding period in 2006 for average medium quality condominiums.

- [A.9.2] Government defers projects worth \$1.7b

To ease inflationary pressure on the construction sector, which has been suffering from 20% to 30% inflation in the past year, the Singapore government has decided to shelve a total of \$4.7 billion of public sector projects until 2010 and beyond. This includes the deferment of \$1.7 billion worth of projects which the government has recently announced.

The move will allow construction resources to be used to ensure the timely delivery of big projects such as the integrated resorts, Marina Bay Financial Centre and the Downtown MRT line. Most should be finished by late next year.

This year alone, about \$23 to \$27 billion of construction projects are expected in Singapore, compared to \$24.5 billion last year.

▪ [A.9.3] Singapore is getting dearer each year for expatriates

In a latest survey by Mercer, Singapore has been ranked as the 13th most expensive city for expatriates, and the fifth in Asia. This year's 13th ranking followed a 14th ranking last year. In 2006 it was ranked 17th and the previous year it was at 34.

The survey which covers 143 cities on six continents, measures the comparative cost of more than 200 items in each location, including housing, transport, food, clothing, household goods and entertainment. Singapore's relatively high rank is attributed to the appreciation of the Sing dollar and the inflow of foreign talents into the country which has resulted in the increased demand for transport and housing.

(B) The overall performance of Private Residential Property segment

Apparently, investors and home owners alike continue to be ruffled by the global economic uncertainties and the soaring inflation which are short-changing exporters who transact in US dollars. The threat of insolvency is knocking on every exporter's door, if the green back does not rebound quickly. However, economists are optimistic that the property market will not crash-land as the two upcoming Integrated Resorts (IRs) will provide the necessary support in terms of the demand for quality housing, and attracting related investments.

[B.1] Singapore's property boom fizzles out

After a spectacular 31% growth in 2007, Singapore's private home market appears to be fizzling out. Private home prices rose a mere 0.4% in the second quarter (Q2 2008), the slowest increase in four years. The Q2 growth was also much slower than the 3.7% increase achieved in the previous three months.

- Prices of both apartments and condominiums rose 0.1% in Q2 2008.
- Prices of landed properties rose 0.6% in the same period, compared with 3.9% in the previous quarter. Prices of detached, semi-detached and terrace houses rose 0.7%, 0.5% and 0.7% respectively.

The price increases of non-landed private residential properties in the respective geographic sectors are as follows:

Table [1] – Price growth in the various geographic sectors

Geographic Sectors	Q1 2008 growth	Q2 2008 growth
Core Central Region (CCR)	3.8%	- 0.1%
Rest of Central Region (RCR)	3.3%	0.7%
Outside Central Region (OCR)	3.8%	0.9%

In this respect, the following developments may have some negative impact on home prices in the mid-term of three to six months.

[B.1.1] New homes launched with cheaper prices

One example is Dakota Residences at Dakota Crescent, a 99-year leasehold project by Ho Bee Investments and NTUC Choice Homes whereby 348 units are being offered at \$950 psf compared to the targeted \$1,000 to \$1,100 psf.

While City Developments' (CDL) Shelford Suites in Shelford Road has also started previews for its 77 units at about \$1,600 psf on average lower than the previous target of \$1,869 psf and \$1,905 psf.

Likewise, CDL's 724 units, 99 year lease, Livia condo at Pasir Ris was launched for an average price of \$650 psf in the second weekend of July 2008. Some analysts said the price was about 10% lower than what CDL would have offered 12 months earlier.

Developers Han Seng Juan and David Loh Kim Kang, soft-launched the 512-unit Kovan Residences at an average price of \$850 psf.

[B.1.2] Record home completion next year may dampen prices

According to recent URA data, about 13,400 new homes are expected to be completed next year, putting downward pressure on sale and rental prices.

One estimate said rents could fall by 5% to 10% next year. And in prime areas such as Orchard and East Coast, the effect could be worst with rents expected to fall by as much as 15%. This is because in East Coast, 3,341 new homes will be completed; while in Orchard, 4,240 new ones will be added.

Suburban areas could be spared because they are mostly owner-occupied.

[B.1.3] Private home rents dropped marginally but transactions rose

According to URA data on private home rents, there were 193 condo projects with more than 10 new Tenancy Agreements (TAs) signed in Q2 2008, compared with 132 projects in the first three months of this year. This could mean that more TAs were signed in Q2 2008 than the previous quarter – due to lower rental prices.

When compared with Q1 2008, Q2 saw a healthy growth in the number of transactions for condo projects in popular locations. Let's look at the rental trend from the same period last year.

- In Q2 2007, there were 156 condo projects with at least 10 new TAs signed;
- In Q3 2007, the figure went up to 202 projects with at least 10 new TAs signed.
- In Q4 2007, rental transactions dropped sharply to 107 projects with at least 10 TAs signed, probably due to the widespread rental hike.

However, things have since taken a turn for the better. Since Q1 2008, the number of new TAs signed has improved steadily, reaching 138 projects with at least 10 new TAs signed. In Q2 2008, the number of condo projects with at least 10 new TAs signed within three months grew to 193 condo projects.

This means that the take-up rate for private rental properties remains healthy as Singapore continues to attract foreign talents to work and live here.

[B.2] First half 2008 Private New home sales lacklustre

801 private homes were sold in June 2008 and 441 units in the preceding month. All in, the total sale of new homes in the first half was 2,311.

However when compared with the same time last year, the first half numbers amounted to just about a quarter of the volume in the same period last year. From the look of things, the full-year sales volume should be around 4,000-5,000 units, less than half the record 14,811 private homes that developers sold in 2007.

Table [2] - Monthly sale figures of new home units launched in the respective months

Month	Total New Home Units Launched but unsold	New units launched in the month	Total New Home Units Sold
Jan 08	2,539	410	320
Feb 08	2,831	343	174
Mar 08	3,186	642	301
Apr 08	3,187	271	274
May 08	3,218	474	441
Jun 08	3,379	1,069	801
	Total	3,209	2,311

At end-June, there were 13,005 private new homes that have been held back from public launches from their developers. This figure is 20.5% higher than the preceding quarter and 68.5% higher than the 7,720 units as at the end of last year.

These units are in projects with the necessary approvals for sale - that is, they have secured sales licence and Building Plan approvals - and include projects under construction as well as those that have received Temporary Occupation Permit.

In addition, there were 3,209 [excluding Executive Condos] units launched but remained unsold at the end of June. The inventory is 40.3% higher than the figure in end-2007.

[B.3] Private secondary home market huffed and puffed

The figures below show the similar lacklustre performances of the private secondary market as its primary market counterpart.

Table [3] – First Quarter (Q1) 2008 non-landed private property transactions by old districts

Dt r	Transactio n	Dtr	Transactio n	Dtr	Transactio n	Dtr	Transactio n
01	55	08	118	15	446	22	113
02	65	09	229	16	233	23	170
03	92	10	257	17	52	24	0
04	82	11	147	18	107	25	33
05	203	12	102	19	184	26	32
06	1	13	48	20	82	27	28
07	21	14	120	21	159	28	23
					Sub-Total		3,202

Table [4] – Second Quarter (Q2) 2008 non-landed private property transactions by old districts

Dt r	Transactio n	Dtr	Transactio n	Dtr	Transactio n	Dtr	Transactio n	
01	57	08	139	15	481	22	150	
02	32	09	179	16	197	23	182	
03	83	10	221	17	62	24	0	
04	53	11	162	18	95	25	22	
05	196	12	128	19	253	26	44	
06	0	13	38	20	68	27	44	
07	40	14	181	21	129	28	18	
Sub-Total								3,254

Table [5] – First Half (1H) 2008 non-landed private property transactions by old districts

Dt r	Transactio n	Dtr	Transactio n	Dtr	Transactio n	Dtr	Transactio n	
01	112	08	257	15	927	22	263	
02	97	09	408	16	430	23	352	
03	175	10	478	17	114	24	0	
04	135	11	309	18	202	25	55	
05	399	12	230	19	437	26	76	
06	1	13	86	20	150	27	72	
07	61	14	301	21	288	28	41	
Total								6,456

[B.4] Prime property prices show first fall in four years

Prices for prime property are beginning to show signs of weakness especially in prime districts such as Districts 9, 10 and 11.

Outside the prime districts, capital values of freehold and leasehold non-landed resale residential units remained unchanged, averaging \$750 psf and \$610 psf respectively, holding steady at this level for three consecutive quarters after both sectors registered 7% increases in Q4 last year.

With the threat of inflation and an economic slowdown in the horizon, prices may drop further as developers try to rid of unsold properties by slashing prices. Furthermore, more people who had bought their units under the Deferred Payment Scheme (DPS) might offload their units so as not to overstretch their finances.

(C) The performance of Non-Residential Property segment

Despite the uncertain economic future and the number of developments that will be coming on stream in the very near future, rentals for prime retail space along Orchard Road are expected to do well as location is the most critical success factor in retail sales and top brands are willing to pay a high premium for it.

[C.1] Super-prime retail rents hit record \$80 psf per month

One sector of the property market that seemed to be resilient is the super-prime retail space along Orchard Road. Super-prime retail space is defined as space facing Orchard Road or in atriums. The rentals for such prime retail space have hit a record high of \$80 psf per month at Ion Orchard – the 325,000 sq ft upscale shopping complex. The sudden increase in the top rent has brought the average psf rent per month to over \$40 – a new record.

Rents for retail space at Ion start at \$20 psf per month for units at the basement levels, which will include F&B outlets and bridge brands.

[C.2] Some retailers raring to go big in Ion Orchard – others fell casualty to high rent

Local retailers such as Club 21, Kwang Sia Fashion and Wing Tai have already signed deals to occupy 40,000 sq ft at between \$20 psf and \$80 psf per month depending on different attributes of the retail space.

- Club 21 has already agreed on 22,000 sq ft for brands such as Giorgio Armani, Dolce & Gabbana, Marc Jacobs and Armani Exchange.
- Kwang Sia, which manages the Hugo Boss franchise here, will open Max Mara, Max & Co, Dsquared and Boss Selection in Ion.
- Meanwhile Wing Tai will close its Topshop/Topman outlet in Wisma next Thursday and re-open the store in the form of a 12,000 sq ft, double-storey flagship in Ion next year.

However, some top retailers have already fled the Orchard belt. For example, Belbon, the agent for luxury brands Jean Paul Gaultier and Kenzo was locked out of its two stores in Paragon Shopping Centre after failing to pay rents since 6 months ago.

As such, whether pay such a premium will be a folly remains to be seen.

[C.3] Retail property market remains stable in Q2

According to a report by DTZ, retail property market remained stable in the second quarter due mostly to positive consumer sentiment and the Great Singapore Sale. Turnover rents rose but growth for fixed growth rents was limited.

First-storey monthly fixed gross rents remained largely unchanged quarter on quarter, hovering at an average of \$42.40 per square foot (psf) for prime areas such as Orchard/Scotts Road, \$33.70 psf in suburban areas and \$27.10 psf in other city areas.

However, the future supply of about 5.4 million square feet of retail space from Q3 2008 to 2012 may put a lid on any drastic price spike. The retail space will be from projects such as ION Orchard, Orchard Central and Marina Bay Sands.

[C.4] Business parks and high-tech sites gaining popularity

Riding on the back of a sizzling hot office rental market, rents in business parks and high-tech industrial sites are heading north as well.

According to a report by CB Richard Ellis, not only the occupancy rate for these sites is at about 90%, the rents have also increased by about 6.8% in May 2008.

The increasing popularity of business parks is due to companies shying from the over-priced downtown prime office space - some commanding as high as \$16 psf per month.

Last year, prime office rents nearly doubled on the back of tight office space and a strong demand from occupiers, including global financial institutions expanding their operations in Singapore. This was on top of the 50%-plus rise that prime office rents registered in 2006.

And in order to placate this demand, more business park and other high-tech sites are being built in Singapore. Recently, two business park sites in one-north were awarded.

(D) The performance of Collective Sales

All is quiet on the en bloc sale scene. Lately, all news regarding collective sales or collective sale sites were mostly negative. For example, some projects were being re-launched after many months of hiatus with markedly lower asking prices; many applications to the Strata Titles Board for sale orders were unsuccessful; and buyers of collective sale sites delaying the scheduled redevelopment works as well as postponing the marketing of the redeveloped sites. Below are some examples.

[D.1] En bloc site re-launched with 40% lower price tag

A site at District 10 Robin Drive has been offered for a collective sale for the second time. This time though, the asking price is 40% lower than the previous price when it was first launched in December 2007. It is now priced at \$956-\$996 psf. This is indicative of the weak private residential market currently.

Meanwhile, Straits Trading is selling two blocks consisting of 38 large apartments in Gallop Gables. Situated off Farrer Road, Gallop Gables, which was completed in 1997, has seven low-rise blocks with 140 apartments in all.

[D.2] En bloc sites buyers leasing back the units – stabilizing rents in the process

The move by developers to lease back en bloc units to existing occupiers in the en bloc sites instead of commencing construction has a calming effect to the existing tenants. At the very least, there is no urgency for the existing tenants to look for alternative accommodation amidst rising rents.

On the other hand, there will be more new condominium units receiving the Temporary Occupation Permit (TOP) from the final quarter of this year onwards. The twin developments will add further pressure on the downward trend of private home rents – and eventually the sale prices.

[D.3] En bloc sale of Tampines Court cancelled

The Strata Titles Board (STB) has ruled against awarding an approval for the collective sale of Tampines Court citing the lack of good faith in view of the sale price and method of distributing the sales proceeds.

The minority owners who were against the sale had argued that the Sale Committee had not obtained an updated valuation when the deal was signed last year. The valuation used was dated from 2005.

Also they had argued that \$405 million deal also involved an amount of \$10 million called the beta sum that is meant to compensate owners for financial loss. This was unfairly distributed among owners at the discretion of the sales committee.

(E) Foreign Interest in Singapore Real Estate

Despite the widespread turmoil in the financial markets all over the world which has seriously impacted the social-political situation in many regional countries, such as Malaysia, the pristine City-State of Singapore is a picture of calm, joy and positive vibes. Already touted as the safe haven for global funds, the aspiring international hub continues to draw scores of private bankers, wealth managers, fund managers and

financial consultants to set up the vantage point here before venturing into the highly volatile regional market.

[E1] Private equity real estate funds in Asia still booming

Continued to be spooked by the never ending revelations of bad news in the United States and Europe, private equity real estate funds are rushing to Asia with suitcases bulging with cash.

So far, a total of 13 new Asia-focused private equity property funds have been set up here in Singapore since March 2008, and they have raised a combined US\$13 billion. It is estimated that a haul of 78 funds will be achieved by year end and the estimated combined funds to be raised will be in the neighbourhood of US\$81 billion for Asian property investments.

[E2] Foreign interest in Singapore commercial properties

Foreign funds continue to pick up good quality commercial properties in Singapore.

- A Hong Kong investor is believed to have bought Wisma Sugnomal at 75 High Street for \$23.5 million or \$1,349 psf. The seven-storey office block, which has shops at street level, is about 12 years old.
- Lum Chang Holdings announced that it has sold all 16 units of its refurbished 2 Belmont for a total sum of \$65 million or \$1,600 to \$1,700 psf to 3 Singapore firms controlled by Indian investors.

The property, formerly known as Belmont Gardens, was bought for \$22 million in 2006. Since the site is located in a designated Good Class Bungalow (GCB) Area, this means that if the property is completely torn down and the site redeveloped, it can be redeveloped only into GCBs, accommodating perhaps three bungalows at most given the minimum GCB plot size of 1,400 sq m (15,069 sq ft). So it made more sense for Lum Chang to refurbish the asset instead of redeveloping it.

(F) News on Government Land Sale (GLS) Programme

The response to the Government Land Sale (GLS) Programme often acts as the barometer of the general health of the real estate market. The number of bidders and the quantum of the competing bids in each GLS exercise are a direct reflection of the on-going market sentiment and the developers' confidence in the near- to mid-term prospect of the property market.

[F.1.] URA awards Woodlands site to Soilbuild

The Urban Redevelopment Authority (URA) has awarded a Woodlands industrial site to top bidder Soilbuild Group Holdings - two days after the tender closed on 22 July, with a bid of \$13.61 million or \$30.10 psf.

The 180,835 sq ft site, at Woodlands Industrial Park E5, comes with a 60-year lease and development costs are expected to be around the region of \$35-\$40 million. The site is expected to be completed in 2010 and is targeted at Small and Median Enterprises (SMEs).

Meanwhile, for a tender last week for a hotel site in Balestier Road that drew three bids - all below market expectations - there is no announcement yet from the URA on its decision.

[F.2] Developers are stalling construction due to higher costs

According to URA data, 46,480 private homes are expected to be completed between Q3 2008 and end-2011. This figure is 18% – or 10,021 units – lower than the figure of 56,501 units slated for completion between Q2 2008 and 2011 listed in URA's Q1 data.

Notwithstanding this, URA highlighted that the total supply of new private homes in the pipeline stood at 67,569 units as at end-Q2 2008 – about the same as 67,736 units at end-Q1. However, more of these units may now see completion after 2011.

The double whammy of rising construction costs and faltering sentiments have apparently caused some private residential property developers to delay their projects.

(G) Overall performance of the HDB resale market

According to URA figures, the prices for HDB resale flats were up 4.5% in Q2 2008, after increasing 3.7% in Q1 2008. The resale transactions grew 22% to reach 7,760 in Q2 2008.

July started promisingly and ended with a bang with a total resale tally of 2,456 – the highest one-month sale since December 2007, and the third highest since January 2007. [See detailed statistics below].

Table [6] –Comparison of monthly total HDB resale transactions from January to June 2008

2008	3-room	4-room	5-room	E-Flats	Total
July	652	910	680	214	2,456
June	628	854	584	192	2,258
May	638	816	544	181	2,179
April	664	909	602	164	2,339
March	613	806	569	162	2,150
February	635	768	495	146	2,044
January	680	837	597	192	2,306

Source of info – HDB inforweb

The above table shows that, in terms of resale transaction volume, it is all the way up, especially for the bigger flats.

It is worth noting that for the first time in many years, the transaction volume of Executive Flats has crossed the important 200 mark – reaching 214 transactions in July 2008. The increase in the transactions of bigger flats is often underpinned by a robust economy where the average Joes are enjoying good runs in wage increases. Despite the increase in the unemployment rate, new wealth is being created in many new frontiers such as private banking and wealth management which might well replace the traditional growth engine such as manufacturing.

[G.1.] HDB resale flat buyers paying lower Cash-over-Valuations (COV)

In Q2 2008, buyers of resale flats in popular locations paid lower COV, i.e. \$1,000 lower than the first three months of the year. When compared to the COV portion of Q4 2007, the savings was \$22,000 cash. Last year, it was not uncommon for buyers to pay between \$80,000 and \$100,000 in COV.

- One of the reasons for a lower COV in Q2 could be the higher market valuation of resale flats. However, there would still be rare occasions where the buyers paid extremely high COV probably due to the limited supply of flats in choice location

such as Marine Parade and Bukit Timah. For example, a buyer paid \$93,000 COV for a 5-room flat in Toh Yi estate.

- Another reason for a higher valuation is the responsiveness of the HDB resale unit in releasing the transacted prices via the HDB Info-Web. Nowadays, successful transacted prices are released publicly via the Info-Web upon the first appointment date of the transactions. This makes the sale data more current, and as a result the valuers are able to give a better estimate of the current market valuation of the flats being marketed.

The table below shows the typical COV amount in some popular heartlands:

Table [7] – Average COV of HDB resale flats has dropped

Flat type/ Locations	Average resale prices	Average COV
3-Room / Ang Mo Kio	\$230,000	\$15,000
3-Room / Marine Parade	\$302,000	\$18,000
3-Room/ Woodlands	\$183,000	\$14,000
5-Room / Bishan	\$515,000	\$25,000
5-Room / Queenstown	\$617,000	\$30,000
5-Room / Woodlands	\$322,000	\$16,000

[G.2] More Permanent Residents are buying HDB resale flats rather than renting them

According to the Department of Statistics, Singapore's PR population rose from 287,500 in 2000 to 386,800 in 2005. And this will underpin the demand for HDB resale flats in the near- to mid-term.

In recent months, as much as 20% of resale flat buyers were PRs compared to a mere 5% two years ago. Last year, 29,436 resale flats changed hands. If the volume holds for this year, it will mean about 6,000 flats could be snapped up by PRs. About 70% of the PR buyers are from China and India with the rest from countries such as Malaysia and the Philippines.

With the spiralling rents, it simply makes more sense to buy. For example, rents for a four-room flat in an established estate ranged from \$1,000 to \$1,200 two years ago. Today, they are \$1,800 to \$2,000.

Table [8] – Resale HDB flat Transactions in July 2008

	3-room	4-room	5-room	E-Flats	Total for Month of July 2008
Ang Mo Kio	73	27	16	3	119
Bedok	51	37	30	6	124
Bishan	7	30	15	8	60
Bt Batok	47	49	17	14	127
Bt Merah	39	33	18	0	90
Bt Panjang	6	44	33	12	95
Bt Timah	2	1	0	1	4
Central Area	12	2	0	0	14
Choa Chu Kang	6	44	44	23	117
Clementi	39	22	3	6	70
Geylang/Aljunied	29	28	5	0	62
Hougang	25	47	30	13	115
Jurong East	23	16	19	9	67
Jurong West	41	87	79	14	221
Kallang Whampoa	28	22	10	1	61
Marine Parade	14	5	3	0	22
Pasir Ris	0	31	26	28	85
Punggol	0	20	51	3	74
Queenstown	48	14	8	2	72
Sembawang	0	21	43	8	72
Sengkang	0	49	69	13	131
Serangoon	14	28	11	9	62
Tampines	37	64	50	12	163
Toa Payoh	39	25	11	2	77
Woodlands	19	99	67	16	201
Yishun	53	65	22	11	151
Total	652	910	680	214	2,456

Annex [A] - Skill Enhancement Training

How to react to tough questions using the latest market information/knowledge

Part One: "Why should I pay you any commission?"

Agent Mr Buyer sir, do you know that you have to pay me a commission if you purchase the property?

Prospective buyer Oh, is that so? Give me one good reason why I should pay you a commission? You did not find me or show me any other properties. My wife and I have been searching for properties on our own and we do not need any agents to serve us.

Agent First thing first, sir, I respect the way you use your own Time and your own notion that you know the inner-working of a property deal. I supposed you have done some studies on real estate deals and know the inherent risks in buying a property?

Prospective buyer What has it got to do with paying you a commission? Are you saying that if I don't pay you a commission, you are going to hide things from me?

Agent No sir. What I mean is that my service comes with many after-sale protection programmes that stretch all the way to 24 months after you have become the owner of this property. Do you like to know how the protection programme can protect you?

Prospective buyer No! We can see for ourselves whether the house is worth buying or not. We do not need your service, whether now or later. In other words, we are not paying any commission to you!

Agent You see sir, when a property seller is represented by a professional agent from a professional agency, many protection features and warranty programmes are already packaged into the deal and it protects all the parties involved in the deal, including the seller, the buyer and me – the agent.

I hope that in your own studies and research on buying a property, you have come across such protection programmes against all risks, especially unforeseeable risks in the future. I will be very surprised if you tell me that you do not want any protection for your own good. Would you like me to explain to you how the protections work, sir?

Prospective buyer I don't think I need the package. A house is a house – how different can it be? Just show me the house.

Agent But sir, it is my duty to explain to you the benefits that I am offering to you and the inherent risks that you may be exposed to after becoming the owner of this property. If you have no knowledge of the service package that I am offering, I am afraid the property is not suitable for you yet.

Part Two: "Itemise your service and I will pay you accordingly"

Prospective customer Tell me Sam, is it true that, according to the Consumer Association of Singapore (CASE), I have the right to ask you to itemise your service so that I can decide how much to pay you?

Agent Yes, sir. It is true that CASE said that; and the advice is based on the universal principle that CASE is using for doctors who are general practitioners (GPs), law firms, accountants and many other professional practices that are very different from real estate sales and brokerage.

At the end of the day, professional real estate agent **differentiates** himself from others based on his skills, circle of influence, and reputation which you cannot quantify meaningfully and list down on paper and put a price next to them.

Prospective customer Why can't you simply list down your expertises and price them accordingly?

Agent As I have said, agents are different from one another. Good and experience agents make the deals look very easy because they are highly skilled and they solve the problems even before the problems become apparent. Can I have your permission to quote one simple example of potential problems that skilful agents can solve before it even appears?

Prospective customer I don't see how problematic selling a house can be. I think you are just exaggerating the matter!

Agent No sir, a high percentage of real estate transactions come across practical challenges during the 'vacant possession' stage – which is commonly known as the 'moving-in' or 'moving-out' stage.

Prospective customer What problems can there be? I thought YOU are supposed to put everything in writing in the first place and prevent the problems from happening?

Agent If I may briefly explain to you the four stages of real estate transactions, i.e. Option stage, Contract stage, legal completion [or title stage] and vacant possession [or the final stage of

handing-over of property].

A highly experienced and skilful agent, such as myself will pre-empt all the potential problems that can crop up at the final stage of the transaction based on both the seller's and buyer's **PRACTICAL REQUIREMENTS** [such as whether he is renovating the property, simply doing a minor touch-up, doing an Additions and Alterations (A&A), or redeveloping the land entirely]. In any case, I would need to know whether I will have to facilitate the purchase of building plans from the Building Control Authority (BCA)* or to make necessary arrangements for other consultants [e.g. architect, contractors, surveyors, valuers, interior designers, geomancers, movers etc] to come forth sooner or later.

[By the way, purchasing of building plans from the BCA, by itself, presents a challenge to both the seller and the buyer due to hidden risks in the structural aspect of the property].

On the seller's side, maybe he might need to stay a few weeks longer after the legal completion so that he could renovate the next house he is moving into. [This is commonly known as 'extension of stay' on the seller's side]

On the whole, I would also need to know how much flexibility both the seller and buyer have in terms of time and alternative place of accommodation. A highly experienced and skilful agent will invest time and effort to coordinate the final stage of the transaction at the very early stage of the marketing and qualify potential buyers accordingly.

Prospective customer Isn't what you have just said 'part and parcel' of your job as an agent?

Agent Precisely, but it takes years of **CONTINUOUS TRAINING** and practice to do it right. In fact, many inexperienced agents do not even know that they need to coordinate such arrangements; and not every agency has spelled out such details in the service package they present to their customers.

What I have just mentioned is the lesser known aspect of property deals that many customers think lightly of. Agents such as myself have invested much time, effort and money in acquiring and practising the skills to ensure that problems will be identified, prevented and solved early. We have to be continuously trained by our agency and the Institute of Estate Agents (IEA) to ensure that we get everything right in every deal.

This is the reason why I would prefer that you examine the **TOTAL SKILL PACKAGE** of an agent instead of looking at the minor details of services which many untrained and uneducated agents can also offer.