RESEARCH

SINGAPORE REAL ESTATE HIGHLIGHTS

JUNE **2016**

ECONOMIC OVERVIEW

1

Global Economy

United States (US) reported slowest economic growth in Q1 2016 since Q1 2015

Real Gross Domestic Product (GDP) for the US expanded by 0.8% quarter-on-quarter (q-o-q) on a seasonally adjusted annual rate (saar) basis in Q1 2016 (based on second estimate), the lowest growth since Q1 2015.

The decelerated expansion was nonetheless supported by the housing market and consumer spending, albeit at a slower pace of growth. Conversely, the positive contribution to the GDP growth was partially offset by weaker government spending, coupled with a stronger dollar and slower global demand that eroded export volume. At the same time, the low oil price environment has undercut profits for oil and gas related firms, leading to a decline in non-residential fixed investment.

Overall average unemployment rate remained fairly low at 5.0% in March 2016, with little change seen since August 2015. Low unemployment rate has driven higher consumer spending on services, housing, utilities and health care in Q1 2016. Meanwhile, households were seen spending more on non-durable goods such as food and beverage and grocery items; yet spending on durable goods such as motor vehicles and parts declined in Q1 2016.

On the whole, the US economy is projected to grow at a similar pace in 2016 as the previous year, fuelled largely by domestic demand, which is backed by the recoveries in the labour and housing markets. At the same time, there is an underlying risk of an unanticipated quickening of the normalisation of monetary conditions in the US. Should these scenarios materialise, regional countries could face large capital outflows, resulting in pressures on their currencies and asset markets.

Euro Area GDP rose in Q1 2016 on the back of higher domestic demand and private sector investment

While the GDP in the Euro Area (19 countries) rose by 0.6% q-o-q in Q1 2016, the pace of recovery has been uneven. All the member states[1], with the exception of Greece, Hungary, and Poland, saw positive quarterly growth ranging from 0.1% to 1.6% on a q-o-q basis. Specifically, Greece, Hungary and Poland reported negative growth rates of 0.5%, 0.8% and 0.1% q-o-q respectively in Q1 2016.

The higher GDP growth seen in the Euro Area was buoyed by a modest increase in household final consumption expenditure (up by 0.6% q-o-q) in Q1 2016 and higher investment by the private sector. Household final consumption expenditure was depressed by the Paris terrorist attack and mild weather late last year, and recorded only 0.2% q-o-q growth in Q4 2015.

Growth in the Eurozone is projected to remain modest as consumer confidence remains weak and could weigh on consumption expenditure in the region. However, continued improvements in the unemployment situation in most economies, coupled with highly accommodative monetary conditions, should help to fuel domestic demand momentarily. In contrast, the uncertainty of Britain's exit from the European Union ('Brexit') could lead to a loss of investor confidence, thereon possibly dampen overall investments and consumption in the UK and the Eurozone.

Chinese economy showed stabilising signs in Q1 2016

The Chinese economy continued to decelerate and reported a 6.7% y-o-y growth in Q1 2016, albeit showing signs of stabilisation. While China's economy grew by 6.9% in 2015, the slowest in the last

25 years, it continued to face a high debt situation. Despite the growing headwinds, the Chinese government projects a GDP growth target of 6.5% to 7.0% in 2016, as China continues to undergo economic re-structuring, from a manufacturing-led economy to a more sustainable consumer-driven economy.

Overall industrial production remained stable at 5.8% y-o-y, with industrial profit expanding 7.4% y-o-y in Q1 2016. Conversely, the total value of imports and exports contracted 5.9% y-o-y in the same period. Fixed asset investment (excluding rural households), which was largely led by government spending on infrastructure, reported a steady growth of 10.7% y-o-y in Q1 2016. In terms of retail sales, the festive season and steady increase in residents' income helped to bolster total retail sales by 10.5% y-o-y during the first three months of 2016.

While China is anticipating a modest growth rate in 2016, this could reverse if the ongoing economic reforms results in an unintended substantial drop in demand. On top of this scenario, should the corporate debt default situation spike, China's economy could slow down more sharply than initially expected.

Singapore Economy

In Q1 2016, Singapore's economy grew 1.8% y-o-y, same level as the preceding quarter. On a q-o-q seasonally adjusted annualised (SAA) basis, the economy expanded by a modest 0.2%, significantly lower compared to the 6.2% growth recorded in Q4 2015.

The goods producing industries expanded by 19.2% on a SAA basis, as both manufacturing and construction sectors recorded positive growth during the first three months this year. The manufacturing sector grew by a strong 23.3% q-o-q on a SAA basis, after a 4.9% q-o-q decline in the previous quarter. Meanwhile, growth for the construction sector surged 10.5% q-o-q SAA in Q1 2016, mainly lifted by public sector construction works and private industrial building works.

However, the services producing industries contracted 5.9% q-o-q on a SAA basis in Q1 2016. Apart from the transportation & storage and the accommodation & food services sectors which grew 3.4% and 0.3% q-o-q on a SAA basis respectively, all other sectors showed signs of contraction during this period.

Singapore's total trade (at current price) fell by 9.7% y-o-y in Q1 2016, lower than the 7.7% y-o-y decline in the preceding quarter. Exports continued to fall by 11.6% y-o-y, largely due to falling oil exports amid persistent low oil prices.

The consumer price index continued to fall and reported a 0.8% y-o-y decline in Q1 2016, largely attributed to falling housing and transport prices.

Outlook

Amid the softening global economic conditions and stronger headwinds, Singapore's economic outlook for 2016 is maintained at between 1.0% and 3.0% GDP growth on a yearly basis. In view of the continued sluggish global trade, a subdued outlook is expected for the manufacturing and transportation & storage sectors. At the same time, low oil prices will continue to dampen business sentiment amongst firms in the marine & offshore segment, as well as related trades in the precision engineering cluster that support the oil & gas industry. Sectors such as finance & insurance and wholesale trade could see a further moderation in growth compared to 2015, which could weigh on Singapore's overall GDP growth as these two sectors remains to be the key pillars of Singapore's economy. Tourism-related sectors may see a boost from the possible sustained recovery in international visitor arrivals, while the biomedical manufacturing cluster could see an uptick in production due to the introduction of new active pharmaceutical ingredients.

EXHIBIT 1

GDP Growth Rates of Major Economies

Country / zone	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016
Euro Area (q-o-q)	0.5%	0.4%	0.3%	0.4%	0.6%
USA (annualised rate)	-0.2%	3.9%	2.0%	1.4%	0.8%
China (q-o-q)	7.0%	7.0%	6.9%	6.8%	6.7%

Source: Eurostat, US Bureau of Economic Analysis, National Bureau of Statistics of China, Knight Frank Research

1 Data for Czech Republic, Denmark, Ireland, Croatia, Luxembourg, Malta, Slovenia and Sweden was not available at the time of writing on 13 June 2016.

EXHIBIT 2

Singapore Key Economic Indicators

	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016
Quarter-on-quarter (%)*					
Overall GDP	0.2%	-1.6%	2.3%	6.2%	0.2%
Goods Producing Industries					
- Manufacturing	-3.5%	-13.8%	-6.0%	-4.9%	23.3%
- Construction	6.7%	7.7%	0.2%	6.0%	10.5%
Service Producing Industries	-0.4%	0.4%	3.8%	7.7%	-5.9%
Year-on-year (%)					
Overall GDP	2.7%	1.7%	1.8%	1.8%	1.8%
Total Trade	-10.8%	-10.9%	-8.5%	-7.7%	-9.7%
- Imports	-16.1%	-13.0%	-9.1%	-9.9%	-7.4%
- Exports	-6.0%	-9.0%	-8.0%	-5.7%	-11.6%
Consumer Price Index (All Items)	-0.3%	-0.4%	-0.6%	-0.7%	-0.8%

Source: Ministry of Trade and Industry, Knight Frank Research

*The quarter-on-quarter GDP changes are seasonally-adjusted and based on 2010 prices.

RESIDENTIAL

Island-wide private home prices (including Executive Condominiums) fell by 1.3% quarter-on-quarter (q-o-q) in Q1 2016 - the tenth consecutive quarter of decline. Overall rents slipped 1.3% q-o-q.

Private Residential Sector

High-end home transactions boosted overall sales volume

In Q1 2016, a total of 2,847 private residential units were transacted, representing a 7.2% y-o-y increase (Exhibit 1). This notable pick-up in sales activity is mainly attributed to the Core Central Region (CCR) segment, which contributed one in five homes transacted in the quarter.

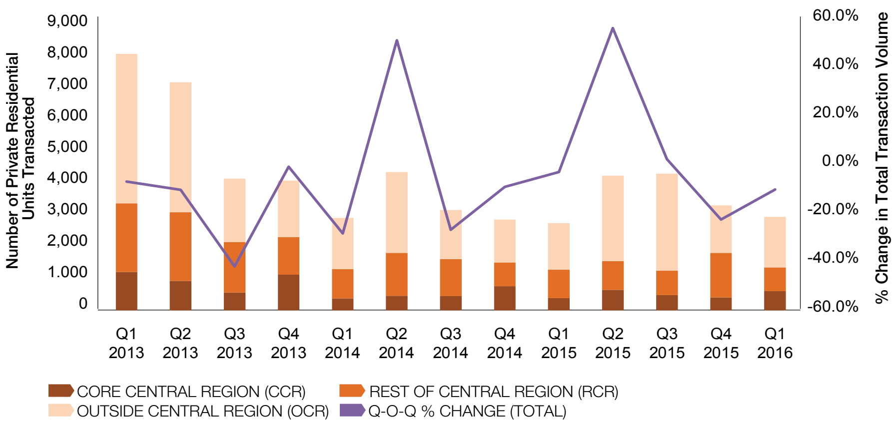
Total sales volume in the CCR segment saw the highest y-o-y increase of 55.3% to 584 units in Q1 2016. Within this high-end segment, the new sale market contributed about 44% of the units transacted. This strong showing in the primary market is chiefly contributed by the successful launch of the 268-unit Cairnhill Nine. More than 60% of the total units in Cairnhill Nine were sold as at end of Q1 2016, within 4 weeks from its official launch on 2 March 2016.

The proportion of foreign homebuyers rose to 29.2% in Q1 2016, the highest level since Q1 2014 (Exhibit 4). This spike can be attributed to the launch of high-end project Cairnhill Nine.

Cairnhill Nine's location in the prime Orchard area and its close proximity to Paragon shopping mall and Mount Elizabeth hospital make it a "coveted purchase" for many Indonesians. Singapore's key destination status for quality health care services, coupled with its enduring status as a liveable and business city, continues to appeal to foreign homebuyers which is manifested in the strong sales performance of Cairnhill Nine.

EXHIBIT 1

Total transaction volume and Q-o-Q change of private residential units, by market segment



Source: REALIS, Knight Frank Research

Luxury home prices rebounded amid overall weak market sentiment

Based on the URA All Residential Property Price Index, private residential home prices (including EC) posted an overall 8.7% decline since the last peak in Q2 2013 before TDSR ruling (q-o-q and y-o-y % changes in Exhibit 2). The OCR saw the most pronounced decline in Q1 2016. Prices in the high-end and mid-tier segments were more resilient; while prices in the CCR edged up slightly in Q1 2016, the Rest of Central Region (RCR) saw no change q-o-q over the same period.

The URA All Residential Property Rental Index declined by 9.1% since the last peak in Q3 2013 (q-o-q and y-o-y % changes in Exhibit 3). CCR rents saw its largest quarterly decline since Q1 2015. Amidst the global economic uncertainties, the reduced inflow of expatriates and shrinking accommodation stipends are expected to further weaken leasing demand, especially for high-end and larger homes.

Public Residential and Executive Condominium (EC) Sectors

Strong interest in EC Market despite Lack of New Launches

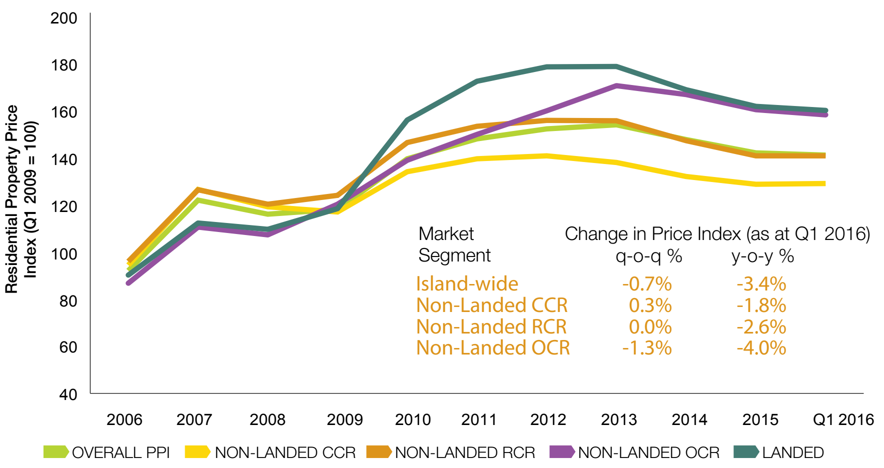
Despite there was only one EC project launched in Q1 2016, the number of new sale EC units rose by 33.0% q-o-q to 762 units in Q1 2016 (Exhibit 5). The 534-unit Wandervale, with its approximate ten-minute walking distance location from Choa Chu Kang MRT, had sold more than half of the total units as at the end of Q1 2016, since its launch in March. Average new sale prices of EC homes held up well in Q1 2016, falling marginally by 0.7% q-o-q to $782 psf.

HDB resale market lost its shine on the back of more BTO units launched

As part of the government's efforts to ramp up public housing supply and encourage home ownership, a total of 4,170 Build-to-

EXHIBIT 2

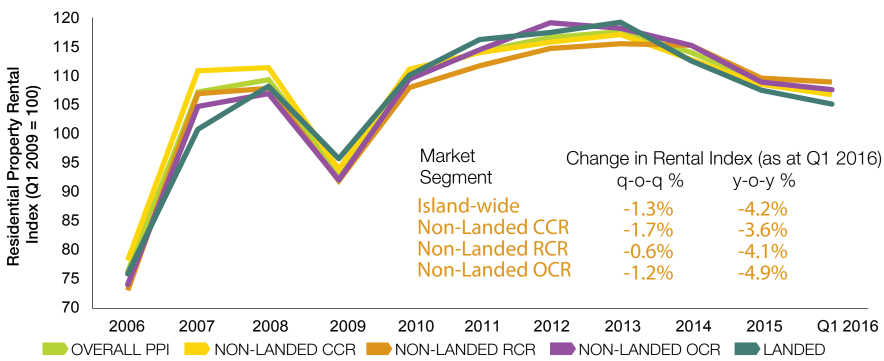
URA Private Residential Property Price Indices, by market segment



Source: REALIS, Knight Frank Research
*Index data for each year is based on the index data as at the Q4 of each year

EXHIBIT 3

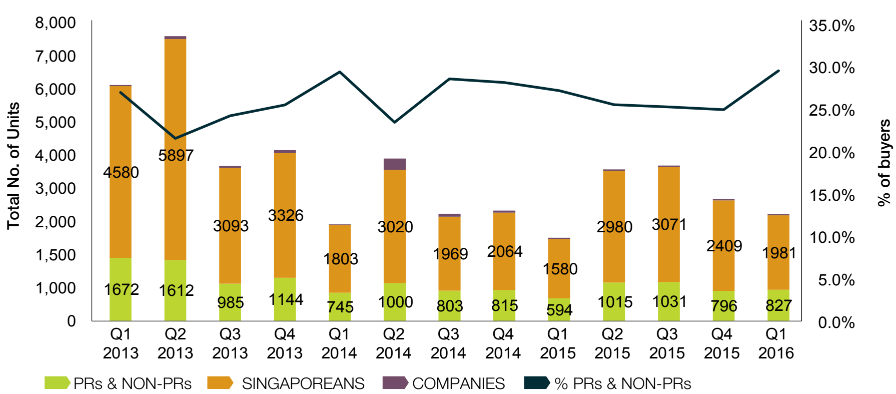
URA Private Residential Property Rental Indices, by market segment



Source: REALIS, Knight Frank Research
*Index data for each year is based on the index data as at the Q4 of each year

EXHIBIT 4

Profile of private homebuyers*, as at Q1 2016



Source: REALIS (based on data as at 26 May 2016), Knight Frank Research
*Excluding Executive Condominiums (ECs) transactions

Order (BTO) homes were launched in Q1 2016. This reflects a 10.5% increase from the average number of BTO flats launched per quarter in 2015. With wider housing options available, the resale market saw receding interest; while the number of HDB resale applications registered fell by 10.9% q-o-q to about 4,400 units in Q1 2016, the HDB Resale Price Index softened by 0.1% q-o-q, or 0.7% y-o-y, over the same period (Exhibit 6). With another 8,940 flats (3,770 BTO units and 5,170 Sale of Balance Flats (SBF) units) slated for launch in May 2016, the prices of HDB resale flats are expected to soften further in Q2 2015.

Outlook

Total private home new sales volume likely between 2,000 and 2,200 units in Q2 2016

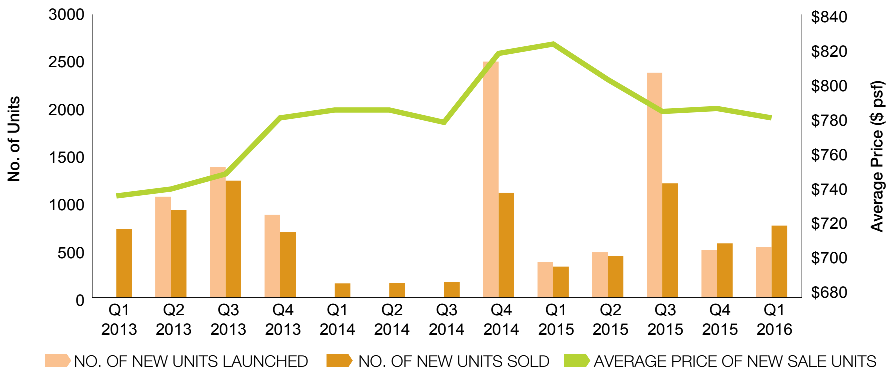
With a number of highly-anticipated projects such as Gem Residences (located in the RCR) and Stars of Kovan (in OCR) lined up for launch in Q2 2016, new sales transaction activity is expected to swing towards the mid-tier and mass-market segments in the second quarter. Island-wide new sales volume for Q2 2016 is expected to range between 2,000 and 2,200 units, bringing the total sales for H1 2016 to 3,400 to 3,600 units. This would fall close to the approximate 3,400 new units sold in the first half of 2015.

Amid continued global economic uncertainty and the possibility of interest rate hike in the second half of 2016, price and household affordability will remain key considerations for more prospective homebuyers. Developers are envisaged to continue pricing their units at market acceptable levels that would allow them to gain market share despite prevailing cooling measures and fairly muted sentiment.

Overall private home prices are envisaged to decline by 3.0% to 6.0% y-o-y in Q4 2016, with the mass market segment in the OCR leading the fall, while the mid-tier and high-end markets are expected to see lower magnitudes of price declines. Luxury home prices are likely to be supported by returning interest among homebuyers who see the rising value proposition of high-end homes. Homes in the CCR are projected to see the lowest price decline of between 0.1% to 0.5% q-o-q in Q2 2016. Projects in the RCR are poised to remain attractive given their proximity to the city, and at lower prices compared to high-end homes.

EXHIBIT 5

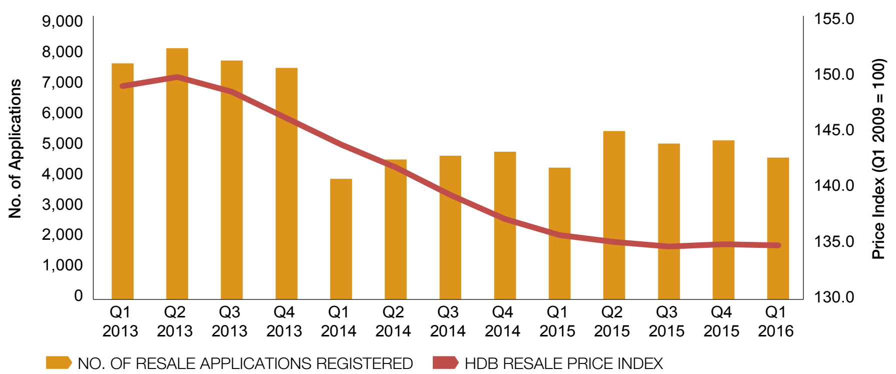
EC Launches and New Sales vs. Average New Sale Prices



Source: REALIS (based on data as at 31 May 2016), Knight Frank Research

EXHIBIT 6

HDB Resale Applications Registered and Resale Price Index



Source: HDB, Knight Frank Research

RETAIL

Waning retail sales was seen in Q1 2016, weighing on retailer business sentiment. With sustained projection for international visitor arrivals in 2016 and expected completion of about 1.2 million sq ft of new retail space in 2016, island-wide retail space occupancy is expected to trend lower in H2 2016.

Retail Sales and Tourism

Weak retail sales prevailed in Q1 2016

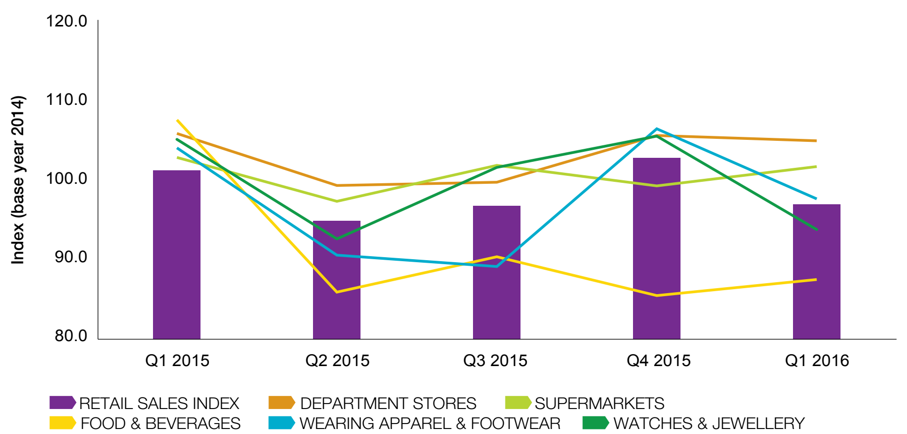
Despite the Chinese New Year festive season, overall Retail Sales Index (RSI, excluding Motor Vehicles), slipped 4.2% y-o-y in Q1 2016. In particular, retail sales for Food & Beverages, Watches & Jewellery, and Telecommunications Apparatus & Computers were adjusted downwards by 18.7%, 10.8% and 21.7% y-o-y respectively. Sales at Department Stores, Supermarkets, Wearing Apparel & Footwear, Furniture & Household, Recreational Goods, and Optical Goods & Books fell by between 0.9% and 6.9% y-o-y in the same quarter. RSI for Petrol Services continued to slip for the ninth consecutive quarter by 7.2% y-o-y, due to persisting low oil prices. In contrast, sale of Medical Goods and Toiletries grew 8.7% y-o-y in Q1 2016.

Singapore Tourism Board (STB) reported 4.2 million international visitor arrivals in the first three months of 2015, 13.9% higher compared to the same period in 2015. Notwithstanding a commendable start in the growth of visitor arrivals, the overall outlook of Singapore tourism sector is anticipated to be fairly subdued in 2016 in the face of stronger global economic headwinds and increasing regional competition for the tourism dollar. STB forecasts tourism receipts to be in the range of S$22.0 to S$22.4 billion (as compared to S$ 21.8 billion in 2015) and international visitor arrivals to be in the range of 15.2 to 15.7 million (as compared to 15.2 million in 2015) in 2016.

Going forward, to combat Singapore's weakened tourism sector performance, STB will continue to intensify its marketing efforts to enhance Singapore's appeal as a destination-of-choice for visitors in the region, introduce manpower-related initiatives to improve productivity, as well as ensuring the quality of manpower to cope and also benefit from the growth of tourism.

EXHIBIT 1

Retail Sales Indices



Source: Singstat, Knight Frank Research
(1) Retail sales index excludes motor vehicles
(2) Apart from the 5 sub-categories shown in above Exhibit, Singstat also tracks the index movements for 8 other retail sales categories, namely Motor Vehicles, Petrol Service Stations, Medical Goods and Toiletries, Furniture & Household, Recreational Goods, Telecommunications Apparatus & Computers, Optical Goods & Books, and Others.

Retail Demand, Supply, and Occupancy Rate

Island-wide retail occupancy fell for the second consecutive quarter

Overall retail space stock expanded by 0.3% q-o-q to 64.5 million sq ft in Q1 2016. With lower total demand growth of 0.2% q-o-q to reach 59.8 million sq ft, island-wide occupancy fell for two consecutive quarters to 92.7% in Q1 2016.

Occupancy of retail space in Fringe Area registered the largest decline by 1.8pp to 91.5% in Q1 2016, due largely to the completion of new retail space, such as Macpherson Mall and Raffles Holland V in the region. Similarly, the Downtown and Orchard Planning Areas saw occupancy slipped by 0.4pp and 1.1pp to 89.2% and 91.2% respectively in Q1 2016. In contrast, occupancy at the Rest of Central Area and Outside Central Region improved by 1.4pp and 1.1pp to 92.6% and 95.6% respectively. In the past few months, several major retailers have announced closures or consolidation of their retail outlets amid the waning retail market. With rising vacancies, some landlords are taking the opportunity to bring in new retail concepts to enhance their mall experience, draw shopper footfall and entice consumer spending.

Rentals

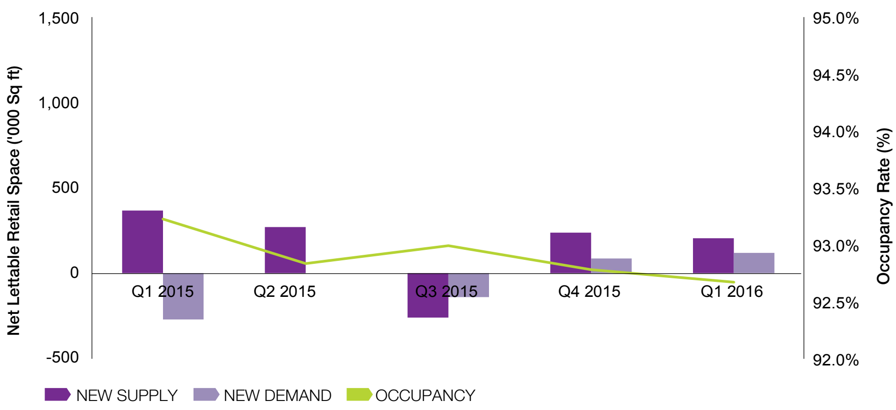
Retail Space Rents fell for the fifth consecutive quarter

Based on URA Retail Space Rental Indices, retail rents fell across the Central Region, Central Area and Fringe Area by 1.9%, 2.1% and 1.4% q-o-q respectively in Q1 2016. This downward trajectory of retail rents is expected to prevail in the next two quarters of 2016 as the subdued retail business sentiment – largely dragged by muted macroeconomic factors such as a slower global economy, stiff domestic labour policies and along with the influx of new retail spaces – is unlikely to pick up in the near term.

Island-wide prime retail rents slipped 1.1% q-o-q in Q1 2016

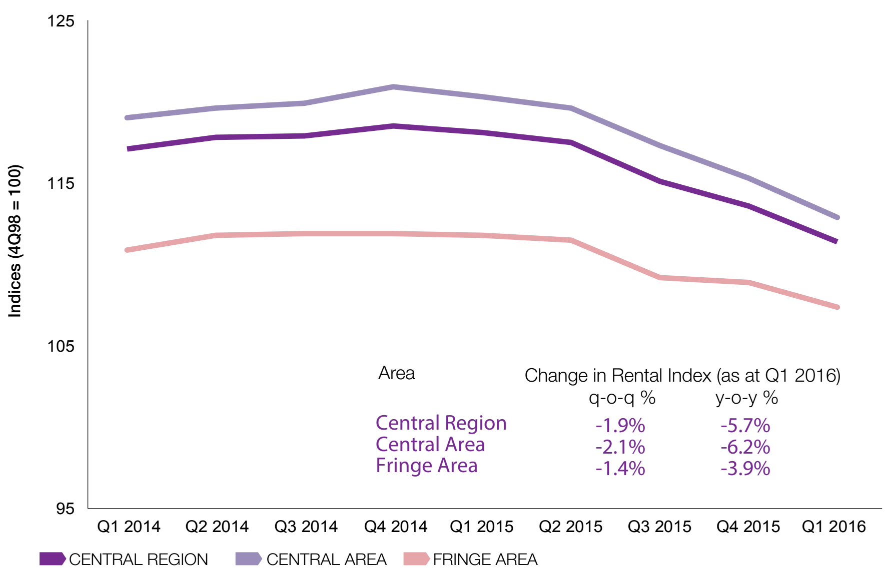
Based on Knight Frank's basket of retail properties, island-wide retail rents prime spaces slipped 1.1% q-o-q to $32.20 per sq ft (psf) in Q1 2016, pulled lower mainly due to greater caution amongst retailers and weaker consumer spending patterns. Meanwhile, Marina Centre, City Hall and Bugis precinct, City Fringe and Suburban saw prime retail rents declined by between 0.6% and 3.5% q-o-q in Q1 2016. In particular, prime retail rents in the City Fringe were dragged lower by some malls, which are viewed with dated mall positioning and less attractive retail trade mix.

EXHIBIT 2
Island-wide New Supply, New Demand, and Occupancy



Source: REALIS, Knight Frank Research

EXHIBIT 3
URA Retail Rent Indices



Outlook

Estimated upcoming new supply of 1.1 million sq ft major mall spaces slated for completion by 2016

About 4.0 million sq ft of net lettable retail space from major malls is slated for completion between 2016 and 2020 in Singapore, averaging 808,000 sq ft of new major retail space per year. This average annual supply is slightly small than the VivoCity which spans close to 1 million sq ft.

An influx of new retail spaces this year is anticipated to compound on the downward trend of retail rents. As at Q1 2016, an estimated 151,000 sq ft of new net lettable retail space was injected into the market. This is on top of an approximated 1.1 million sq ft of new net lettable retail space expected to complete by the end of 2016, of which, 33.6% (380,000 sq ft) and 28.0% (317,000 sq ft) of the major new net lettable retail space will be from the Fringe Area and Downtown Core respectively. Some of the upcoming major malls projected to complete by end this year include Downtown Gallery, Tanjong Pagar Centre and Our Tampines Hub.

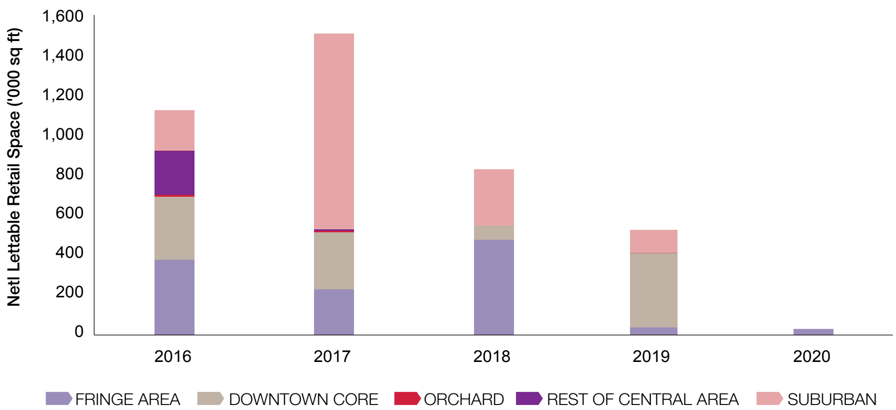
Rising vacancy reveals opportunity for landlords to bring in new concepts

Moderating prime rents and consolidation of major retailers are some of the signs pointing towards higher island-wide vacancy rate by the end of 2016. Concurrently, the subdued global economic outlook continues to weigh on consumer and retailer confidence. Despite these downside factors, enterprising landlords can take advantage of the situation to introduce new retail concepts, which could help enhance the overall shopping experience, promote growth of footfall and encourage consumer spending.

Average rents in the Central Region are envisaged to fall further by around 5% y-o-y in Q4 2016, while prime space retail rents could soften by up to -2% in 2016. Overall occupancy could also slip by up to 3 percentage points to between 90% and 92% by Q4 2016. Conversely, demand for suburban retail spaces are expected to remain fairly stable as these malls remain supported by the captive resident catchment population.

EXHIBIT 4

Upcoming Retail Supply from Major Developments in Key Precincts



Source: Knight Frank Research

EXHIBIT 5

Average Retail Rents for Prime Spaces, Q1 2016

Location	Average Monthly Gross Rentals (Prime Spaces) (S$ per sq ft)	q-o-q change	y-o-y change
Island wide	S$31.20	-1.1%	-3.0%
Orchard Road	S$35.20	No change	-0.5%
Marina Centre, City Hall, Bugis	S$31.60	-0.6%	-3.9%
City Fringe	S$24.70	-3.5%	-5.4%
Suburban	S$29.40	-1.9%	-5.9%

Source: Knight Frank Research

(1) Knight Frank revised its basket of prime retail space with effect from Q1 2016.
(2) Retail Rents are rounded off to the nearest ten cents
(3) Prime Spaces refers to rental-yielding units between 350 and 1,500 sq ft with the best frontage, connectivity, footfall, and accessibility in a mall which are typically the ground level of a retail mall and/or the basement level of a retail mall that is linked to a MRT or bus station.

OFFICE

Island-wide occupancy edged upwards in Q1 2016 largely due to the withdrawal of available office stock and slight uptick in new office space take-up in the Central Region. In light of the weakening economic growth and the large impending supply of 2 million sq ft Gross Floor Area (GFA) of new office space by end-2016, prime office rentals are expected to soften further for the rest of 2016.

Supply, Demand, and Occupancy

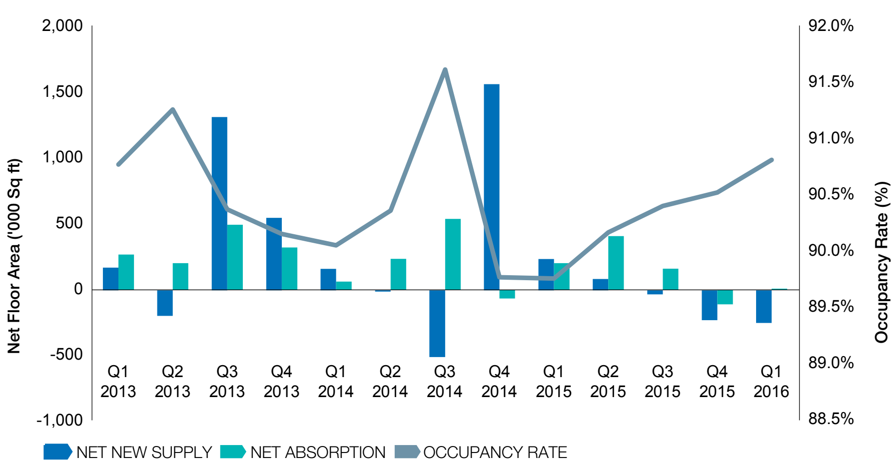
Island-wide occupancy inched upwards in Q1 2016

Total island-wide available office stock fell to 81.1 million sq ft in Q1 2016, with the net new supply recording a withdrawal of 248,000 sq ft of office space from total available stock. Net absorption for island-wide office space rebounded in Q1 2016, recording a positive demand of 11,000 sq ft in Q1 2016 compared to a negative demand of 108,000 sq ft in the previous quarter (Exhibit 1). Consequently, island-wide occupancy rate improved 0.3 percentage points (ppt) to 90.8% in Q1 2016, marking its fourth consecutive quarter of increase.

Net office absorption for areas within the Central Region saw a mixed bag of results in Q1 2016. While office space demand in Orchard registered the largest q-o-q decline of 1.1% to 3.7 million sq ft in Q1 2016, demand in the Rest of Central Area saw a smaller decrease of 0.8% q-o-q to 11.6 million sq ft over the same period. On a brighter note, both the Downtown Core and Fringe Area recorded positive net absorption in Q1 2016, with the latter recording a higher net absorption of 118,000 sq ft of office space. Amidst the rising economic uncertainties and cautious business outlook, more businesses are likely to take proactive steps to manage their office occupancy costs. As companies look for cheaper relocation options while situated close to the Central Business District, office space demand in the Fringe Area is expected to increase further for the next few quarters.

EXHIBIT 1

Island-wide Office New Supply, Demand and Occupancy



Source: REALIS, Knight Frank Research

Office Rents

Continued moderation in office rents as supply glut looms

As more businesses deployed office space consolidation to reduce costs and demand for new spaces slowed, prime office rents saw continued declines in Q1 2016 with 3.9% q-o-q fall. Average monthly gross rent for Raffles Place/ Marina Bay Grade A+ and Raffles Place/ Marina Bay Grade A office spaces both fell 3.9% q-o-q (Exhibit 1). With increasing vacancies, City Hall Grade A offices experienced the steepest drop, falling by 4.1% q-o-q in Q1 2016. This was followed closely by Marina Centre/Suntec Grade A offices where rents weakened by 4.0% q-o-q over the same period.

According to URA Rental Indices, office rents in the Fringe Area fell by 2.9% q-o-q in Q1 2016, marking its largest q-o-q drop since Q3 2009.

Outlook

Projected decline in prime office rentals expected to heighten flight-to-quality effect

In light of the persistent economic uncertainty and subdued business outlook, occupier demand is expected to remain muted in the medium term. Average rents in the prime office segment is projected to weaken further in the next two to three quarters, with leasing enquiries expected from tenants keen to secure quality and more efficient spaces at attractive terms under the current market downturn. Net absorption for office space island-wide in 2016 is expected to fall below the historical average annual net absorption for the last five years (i.e. 2011 – 2015). In view of the upcoming completion of some large-scale office developments by the end of 2016, downward pressure on rents in prime grade office buildings in Raffles Place / Marina Bay is likely to persist with projected declines of 8% to 12% y-o-y in Q4 2016.

EXHIBIT 2

Average Office Rentals in Q1 2016

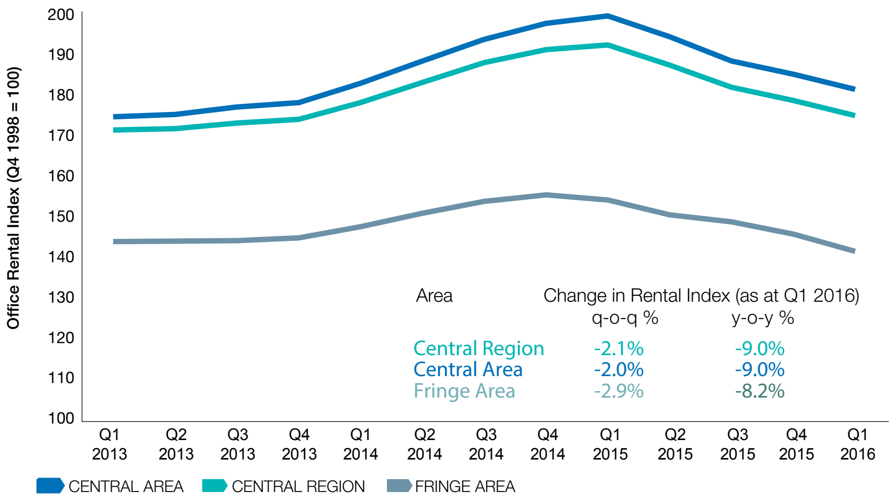
Location	Gross Effective Monthly Rentals (S$ psf)	Quarter on Quarter Change
CBD (Grade A+, Grade A)		
Raffles Place / Marina Bay Grade A+	$10.00 - $10.50	-3.9%
Raffles Place / Marina Bay Grade A	$8.70 - $9.20	-3.9%
Shenton Way / Robinson Road / Tanjong Pagar Grade A	$7.80 - $8.30	-3.6%
Marina Centre / Suntec Grade A	$8.60 - $9.10	-4.0%
City Hall Grade A	$8.50 - $9.00	-4.1%
Central Area (Outside CBD)		
Orchard Grade A	$8.30 - $8.80	-1.7%
Others		
Fringe Areas	$5.20 - $7.30	-3.8%
Suburban Areas	$4.40 - $5.80	-2.5%

Source: Knight Frank Research

(1) Rents are based on transacted leases
(2) Rents are based on a lease term of at least three years
(3) Rents are expressed as values rounded to nearest 10 cent
(4) Rents are estimated based on leases of a whole-floor office space on the mid-floor levels of office properties, and taking into account rent free period and other concessions

EXHIBIT 3

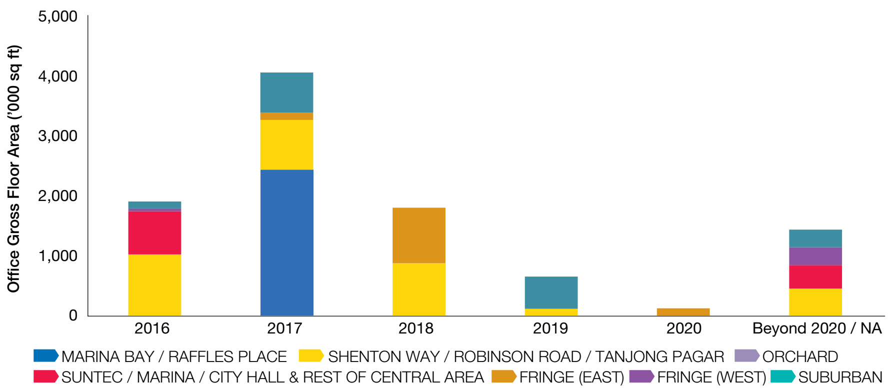
URA Office Rental Indices



Source: REALIS, Knight Frank Research

EXHIBIT 4

Major Upcoming Office Supply in Key Precincts, as at Q1 2016



Source: URA, Knight Frank Research

INDUSTRIAL

Both factory and warehouse occupancy moderated on the back of softened new demand amid the challenging business environment. The downward trend of island-wide rents is likely to prevail with an upcoming fresh supply of 26.2 million sq ft of industrial space by end of 2016.

Manufacturing Sector

According to the Ministry of Trade and Industry (MIT), Singapore's manufacturing sector contracted by 1.0% year-on-year (y-o-y) in the first quarter of 2016, albeit at a slower rate compared to the 6.2% y-o-y fall in the preceding quarter. This was attributed primarily to the cutback in outputs for most of the clusters. In contrast, biomedical manufacturing and electronics clusters grew by 19.4% y-o-y and 3.0% y-o-y in Q1 2016, respectively.

Supply, Demand and Occupancy

Notable drop in new demand led to lower occupancy of factory space

New supply of factory space (including business parks) was reduced by 21.8% q-o-q to 2.6 million sq ft in Q1 2016. This included the completion of some major factory developments such as Loyang Enterprise Building (555,417 sq ft GFA), E9 Premium (451,007 sq ft GFA), single-user Commonwealth Capital Building (291,702 sq ft GFA) and Mapex (245,417 sq ft GFA). Ascent (555,417 sq ft GFA), a business park development along Science Park Drive, was also completed in the same quarter.

New demand of factory space dropped significantly by 69.6% q-o-q to 893,000 sq ft. As a result, occupancy rate of factory space moderated from 90.4% in Q4 2015 to 90.0% in Q1 2016.

Occupancy of warehouse space fell further in view of excess supply and tapering demand

New supply of warehouse space fell by 10.5% q-o-q to 1.9 million sq ft in Q1 2016 from the previous quarter. This included newly completed major warehouse developments such as Mapletree Logistic Hub (683,508 sq ft GFA) and Freightlinks Districentre Warehouse (484,376 sq ft GFA).

Coupled with the decline in new demand by 14.1% (or 786,000 sq ft) q-o-q in the same period, occupancy for warehouse space slipped to 90.4% in Q1 2016.

Industrial Rents

Overall JTC Industrial Rental Index suffered its seventh consecutive y-o-y decline

The JTC All Industrial Property Rental Index declined for the fourth consecutive quarter, posting 2.7% q-o-q contraction in Q1 2016. On a y-o-y basis, the rental index registered its seventh consecutive decline of 5.1% y-o-y, falling by 7.0% from its last peak in Q2 2014 to Q1 2016. Rentals in all segments of the industrial properties fell marginally, with multiple-user factory space encountering the highest q-o-q cutback of 3.7% in Q1 2016.

Rents for multiple-user factory space across all planning regions were adjusted downwards, with the q-o-q fall in Q1 2016 ranging between 0.8% and 5.7%.

Contraction in overall island-wide rents prevailed into Q1 2016

Overall island-wide rents slipped by 1.2% q-o-q in Q1 2016 (Exhibit 4). In particular, the Pioneer – Tuas cluster fell by 8.3% q-o-q to $1.77 psf in Q1 2016. Where the oil and gas firms generally agglomerated in the west, the Pioneer – Tuas cluster was most hit by the industry's weak performance amid the low oil price environment. In the face of business headwinds, these firms consolidated their operations and consequently led to the drop in demand for industrial space in the area.

Nonetheless, with falling average rents island-wide, more tenants are on a close lookout for better located industrial units, especially those properties equipped with efficient layouts and superior building specifications.

Upcoming Supply

As at Q1 2016, an estimated gross floor area of 45.6 million sq ft of factory (including business parks) and 15.4 million sq ft of warehouse space are slated for completion by 2020. For 2016 alone, about 26.2 million sq ft or 42.9% of the total industrial space supply in the pipeline will be completed. Notably, single-user factory accounts for 50.3% or 13.2 million sq ft of the total industrial space supply slated to be completed by end-2016.

Outlook

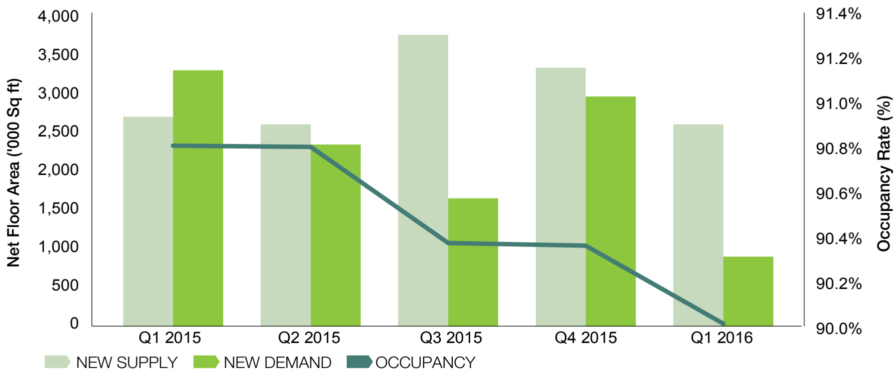
More buyers are sourcing for property deals amid falling rents and prices

Demand for factory and warehouse units continued to soften in tandem with the falling industrial production and outputs. Amid the business uncertainty, many industrialists have withheld expansion plans to observe the market conditions ahead.

Overall average rents are expected to fall by between 5% and 10% y-o-y by the end of 2016. Average prices for leasehold factory and warehouse units could decline by 5% to 7% y-o-y in Q4 2016, while average prices for freehold factory and

EXHIBIT 1

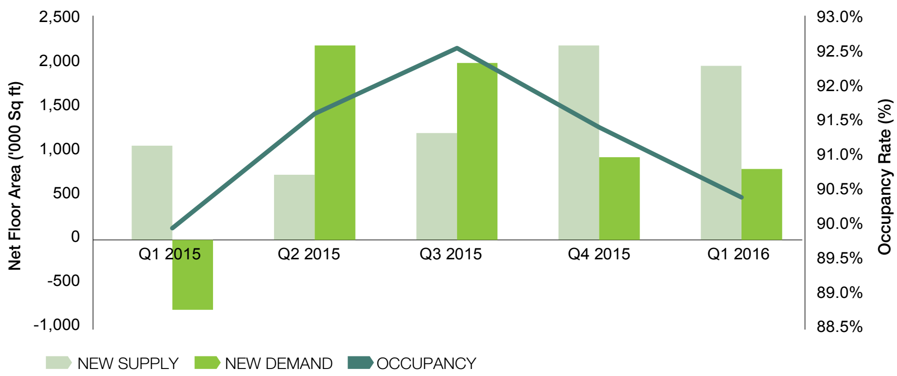
Island-wide Industrial New Supply, Demand and Occupancy (Factory)



Source: REALIS, Knight Frank Research

EXHIBIT 2

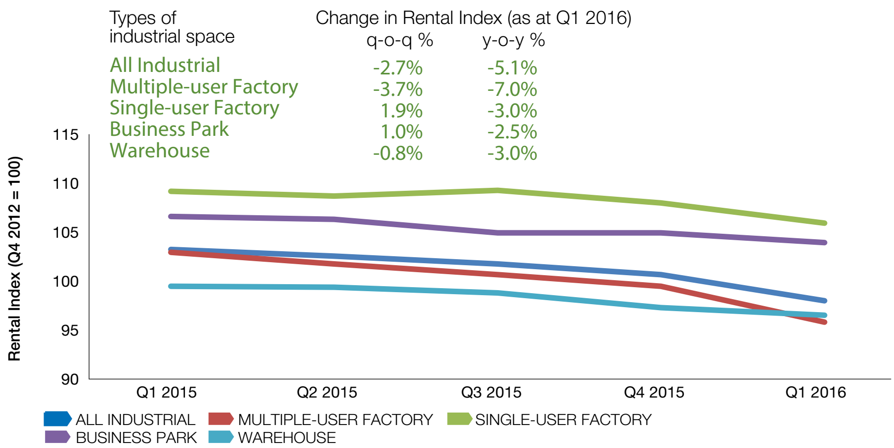
Island-wide Industrial New Supply, Demand and Occupancy (Warehouse)



Source: REALIS, Knight Frank Research

EXHIBIT 3

JTC Rental Indices of Industrial Space



Source: REALIS, Knight Frank Research

Notes: Before 4th Quarter 2014, the rental index is computed based on transactions of multiple-user factories and multiple-user warehouses in the Central Region, with weights updated every quarter using past 12 quarters transaction values. From 4th Quarter 2014, the rental index is computed based on island-wide transactions of multiple-user factories, single-user factories, business parks and warehouses. The weights used are fixed using 2012 transaction values. The rental index is also re-scaled to 100 at 4th Quarter 2012. Due to rounding, there could be some differences in the quarterly rental change compared to the rental index before re-scaling.

warehouse units are expected to hold firm given its limited supply.

Notwithstanding the existing gloom, the industrial property market could recover with a tint of optimism going forward, with buyers observed to start sourcing for good property deals in view of falling prices. With the limited sizeable industrial land sale sites under the H1 2016 industrial government land sales programme, developers could see it as opportune time to clear their unsold strata-titled industrial inventory as future supply of strata-titled industrial spaces could taper till 2019.

Factory segment is anticipated to face challenge

A confluence of downside risks, such as the slowdown in China's economy, a lower oil price environment and the onslaught of new factory space slated for completion in 2016, could constrain demand for factory space in 2016. At the same time, average rents and prices of factory space may face downward pressure as more industrialists look towards business consolidation to reduce operating costs. Competition in the leasing market is expected to intensify when the new supply sets in, coercing building owners to be more realistic with their asking rents in order to attract and retain tenants.

Warehousing and logistics sector set to be one of the industrial property's market key engines of growth

On the back of the burgeoning e-commerce sector, the warehouse and logistics sector is set to be one of the most closely-watched industrial segments. The rapidly expanding e-commerce retailing industry, which requires efficient logistics and warehousing support to carry out its business operations, could be one of the key demand contributors of warehousing and logistic space in the immediate years ahead. One of the trending warehousing facilities that took off in recent years is the provision of the self-storage services. With convenience and quick access as the top considerations among users – online business owners, households and hobbyists – the well-located facilities with closer proximity to public transport nodes and residential estates will tend to be more highly sought-after.

Despite an upcoming 6.2 million sq ft of new warehouse spaces, occupancy is likely to remain fairly healthy as most of which are catering mainly to single-user tenants or end-users.

EXHIBIT 4

Average Monthly Gross Rentals for Conventional Industrial Space, by Key Clusters

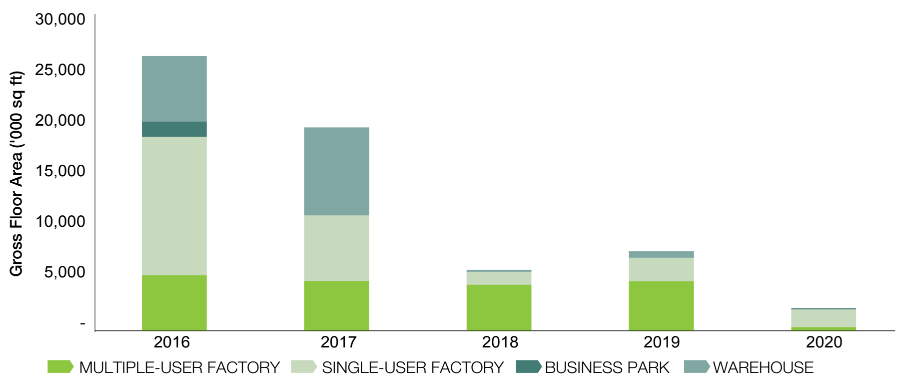
Industrial Cluster	Monthly Gross Rentals (Upper Floor, S$ psf) Q4 2015	Q1 2016	% Change (q-o-q)
Kaki Bukit - Ubi - Paya Lebar – Eunos	$2.31	$2.27	-1.7%
Macpherson - Tai Seng – Defu	$1.89	$1.90	0.5%
Kallang - Geylang – Bendemeer	$2.93	$2.83	-3.4%
Bukit Merah - Alexandra - Jalan Kilang - Pasir Panjang	$2.94	$3.06	4.1%
Serangoon - Ang Mo Kio - Lorong Chuan -Toa Payoh - Pemimpin	$1.92	$1.89	-1.6%
Clementi - Toh Tuck - Bukit Batok	$1.57	$1.54	-1.9%
Pioneer - Tuas	$1.93	$1.77	-8.3%
Woodlands - Sembawang - Admiralty- Yishun	$1.36	$1.38	1.5%
Average	$2.11	$2.08	-1.2%
Business Park Space (Island-wide)	$4.42	$4.41	-0.2%

Source: Knight Frank Research

* Range of rentals are estimated based on the average of minimum and maximum transacted rentals derived from surveys
*Only rents of units on upper floors are included

EXHIBIT 5

Industrial Space Supply in the Pipeline, as at Q1 2016



Source: REALIS, Knight Frank Research

INVESTMENT & CAPITAL MARKETS

Against the backdrop of global economic uncertainties and cautious market sentiment, total investment sales value fell below the $2.5 billion-mark in Q1 2016. Investment activity is likely to pick up in Q2 2016 as prime assets continue to attract strong interest from potential investors.

Overview

Residential sector overtook Commercial sector in investment sales value

TTotal investment sales value declined to $2.40 billion in Q1 2016, representing a 64.2% quarter-on-quarter (q-o-q) or 36.9% year-on-year (y-o-y) decrease (Exhibit 1). This was the lowest level since Q3 2009, after the recovery from Global Financial Crisis. The private sector witnessed a significant 79.4% q-o-q decrease to $1.17 billion and contributed 48.7% of total investment sales value. In contrast, total public investment sales value increased 19.6% q-o-q to $1.23 billion.

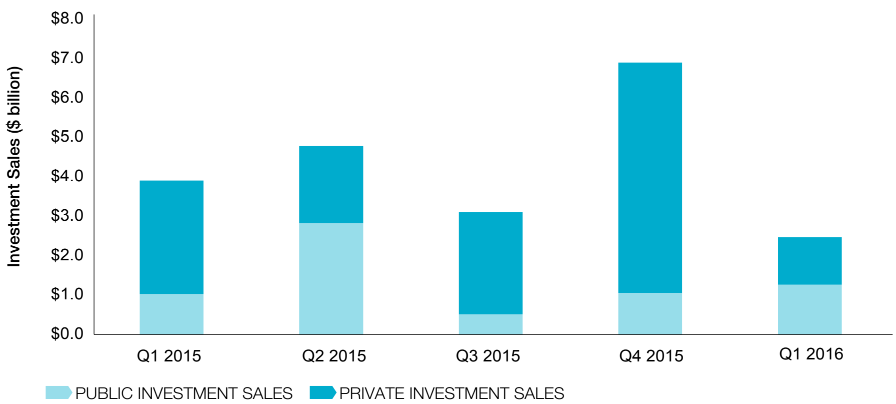
Defying broad trends, the residential sector registered a 29.7% q-o-q increase to record $1.69 billion in Q1 2016 (Exhibit 2). However, the commercial and industrial sectors dipped 86.7% and 84.8% q-o-q to $0.59 billion and $0.11 billion respectively in Q1 2016.

Residential

Brisk sales in public sector as developers continued their land-banking strategy

The public sector saw 22.7% q-o-q increase to $1.23 billion in Q1 2016 (Exhibit 3) as Government Land Sales (GLS) sites garnered high interest from developers, evident from the average number of bidders (8.7 bidders) from 3 sale sites. The quarter started off with a consortium consisting of FCL Topaz Pte Ltd, Sekisui House, Ltd and KH Capital Pte Ltd clinching the non-landed site at Siglap Road with a winning bid of $624.18 million or $858 psf ppr, 4.0% higher than the second highest bidder and out of 8 bidders. Two other sites which saw

EXHIBIT 1
Total Investment Sales, by Sector Origination



Source: Knight Frank Research

To be considered as private investment sales under Knight Frank Research definition, it must fulfil either of the following pre-requisite:-
-Investment transactions should comprise an entire building or property with a total worth of S$10 million and above; OR
-Any bulk sales within a development which amounts to $10 million or more
1 Public Investment Sales: The sale of a development site that is made available by the government to private entities.
2 Private Investment Sales: Sales transaction of an existing development made between two private entities.

similar strong responses were awarded in February 2016. CEL Residential Development Pte Ltd secured the non-landed site at New Upper Changi Road/ Bedok South Avenue 3 (Parcel B) with a bid price of $419.38 million or $761 psf ppr, while the executive condominium site at Yio Chu Kang Road (Hougang E6) was awarded to Hoi Hup Realty Pte Ltd with a top bid of $183.80 million or $331 psf ppr.

The private sector also saw 52.6% q-o-q rise to $0.47 billion in Q1 2016 (Exhibit 3), comprising 27 luxury home transactions. The largest deal was 3A Tanglin Hill which changed hands at $27.50 million or $1,551 per sq ft (psf) based on land area of 17,728 sq ft. Non-landed homes saw a total of 10 transactions, of which Boulevard Vue recorded the most number of transactions (3 units) and the highest value ($15.90 million or $3,551 psf based on strata area of 4,478 sq ft).

Commercial

Private sector suffered from lack of big ticket transactions

After an outstanding performance in the previous quarter, total investment sales in the commercial sector dived 86.7% q-o-q or 64.2% y-o-y to $0.59 billion in Q1 2016 (Exhibit 3). This can be attributed to a lack of big ticket transactions, with the largest deal being the $301.50 million acquisition of a 50% stake in 78 Shenton Way by a property fund managed by Alpha Investment Partners. Another notable deal was the purchase of strata office space in SBF Centre (levels 29 and 30 and eight units on levels 27 and 28) by a unit of the Asia-Pacific arm of Scor Reinsurance for $85.46 million. On the retail front, Keppel Land Ltd bought a 22.4% stake in 112 Katong mall via its wholly-owned subsidiary, DC REIT Holdings Pte Ltd, for $51.40 million. With the remaining 77.6% held by Alpha Asia Macro Trends Fund, which is managed by Alpha Investment Partners - a property fund management vehicle of Keppel Land, the latter has full ownership of the retail mall.

Industrial

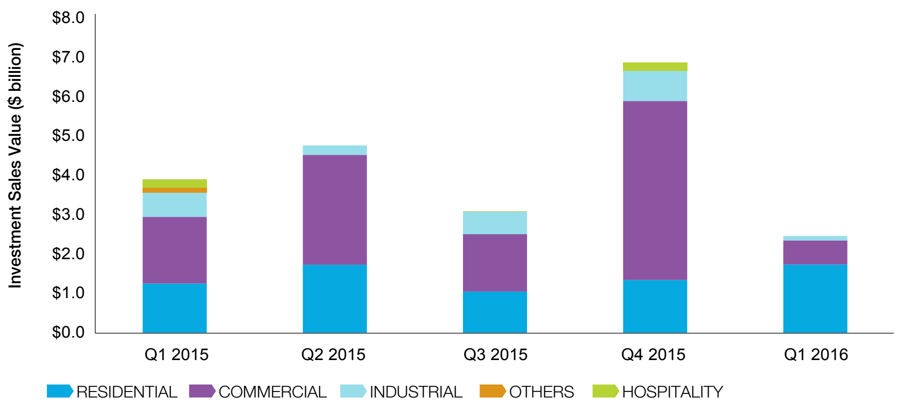
Investment activities remained subdued

The industrial sector saw 84.8% q-o-q or 81.0% y-o-y decline to $0.11 billion in Q1 2016 (Exhibit 3).

In the public sector, only one industrial site, being Plot 5 at Tuas South Link 2, was awarded to Hiap Shing Construction Pte Ltd for $3 million. This represented 89.5% q-o-q decline and reflected the bearish market sentiment, as industrialists remained cautious in their business expansion plans.

Private investment sales declined 84.6% q-o-q to $0.11 billion in Q1 2016. The largest transaction was the purchase of Harper Kitchen, a rare freehold industrial building near Tai Seng MRT, for $51.10 million by a consortium led by The Nanshan Group. The other four transactions involving leasehold properties were concluded below the $25 million-mark apiece.

EXHIBIT 2
Total Investment Sales, by Development Type



Source: Knight Frank Research

EXHIBIT 3
Public, Private and Total Investment Sales

	Public ($ billion)	Private ($ billion)	Total ($ billion)
Residential Investment Sales			
Q1 2015	$0.78	$0.44	$1.22
Q2 2015	$1.06	$0.63	$1.69
Q3 2015	$0.47	$0.55	$1.02
Q4 2015	$1.00	$0.31	$1.31
Q1 2016	$1.23	$0.47	$1.69
Commercial Investment Sales			
Q1 2015	$0.19	$1.46	$1.65
Q2 2015	$1.67	$1.05	$2.72
Q3 2015	$0.00	$1.43	$1.43
Q4 2015	$0.00	$4.44	$4.44
Q1 2016	$0.00	$0.59	$0.59
Industrial Investment Sales			
Q1 2015	$0.03	$0.56	$0.60
Q2 2015	$0.02	$0.22	$0.23
Q3 2015	$0.03	$0.53	$0.56
Q4 2015	$0.03	$0.72	$0.75
Q1 2016	$0.00	$0.11	$0.11

Source: Knight Frank Research

Inbound[1] and Outbound[2] Investments

Total outbound property investments by Singapore-based buyers fell 74.8% q-o-q or 35.9% y-o-y to $3.26 billion in Q1 2016, the lowest level since Q3 2013. With no industrial properties transacted, this quarter played out quite differently from the previous two where the industrial sector dominated outbound market with $7.38 billion and $6.75 billion worth of deals in Q3 2015 and Q4 2015 respectively. The largest transaction recorded in Q1 2016 was GIC's $946.27 million purchase of a 47.5% interest in a portfolio consisting of 22 student accommodation housing in the United States (US) owned by University House Communities Group (UHC); the deal was a joint venture with Canadian Pension Plan Investment Board (CPPIB) and the Scion Group, with the latter to manage and operate the portfolio. This sole transaction contributed 29.0% of total outbound investments. The residential sector made up another 25.0% with $815.49 million worth of transactions while the office sector secured $789.23 million worth of deals to finish in the third place at 24.2%.

Total inbound investment into Singapore by foreign entities dipped by a larger 87.7% q-o-q to $85.46 million. The only transaction involved the purchase of strata units in SBF Centre by SCOR Reinsurance based in France.

EXHIBIT 4

Outbound Investment Sales* in Q1 2016, by development type

INDUSTRIAL	0.0%
RETAIL	0.1%
OFFICE	24.2%
MIXED DEVELOPMENT	0.0%
HOTEL	13.3%
DEVELOPMENT SITE	8.2%
OTHERS	29.0%
RESIDENTIAL	25.0%

Source: Real Capital Analytics (RCA), Knight Frank Research

*Only transactions more than US$2.5 million are included in the analysis.

1 Outbound investments refer to all outbound capital flows relating to the direct and indirect acquisition (e.g. equity stake) of a property situated outside of Singapore, by Singapore-based entities. Only transactions with quantum of at least US$3.5 million are captured.

2 Inbound investments refer to all inbound capital flows relating to the direct or indirect acquisition (e.g. equity stake) of a property situated within Singapore. Only transactions with quantum of at least S$3.5 million are captured.

Market Outlook

Sector	Outlook	Possibly quarterly movement in Investment Sales Value in Q2 2016
Residential Collective sale expected to see revived interest	•There is rising interest in collective sale but large-scale en-bloc deals will remain challenging. •While there is persistent interest in bulk sale-and-purchase transactions, conclusion of such deals hinge on opportunities in the market as well as potential buyers being able to find and take on a structure that allows them to avoid penalties arising from the Qualifying Certificate rule. •Developers with no current projects are likely to contest aggressively for GLS sites. However, public residential sales are likely to be lower than Q1 2016, which saw the highest figure since Q2 2014.	↔
Commercial Private investment activity expected to be spurred on by demand for trophy assets	•There is liquidity in the market but the lack of stock is a limiting factor. Trophy assets are likely to attract investors, especially those not restricted by a fixed investment horizon. •With a lack of transaction in the public sector in Q1 2016, the commercial-and-residential site on H1 2016 GLS Confirmed list would boost public investment sales value in Q2 2016.	↑
Industrial Industrial sales likely to increase moderately against the backdrop of weak manufacturing sentiments	•Amidst the negative manufacturing outlook, investors will look out for quality tenants in potential assets. •Public investment sales activity should improve as end-users continue to turn to industrial Government Land Sales (iGLS) programme to fulfill their space needs.	↑
Hospitality Private investment activity likely to pick up slightly due to demand for centrally located assets	•With Singapore's tourism starting on a strong note in 2016, investors' interest in the hospitality sector is likely to pick up, with investors favoring centrally located assets.	↑
Inbound Investments Foreign investors most likely to be attracted by prime assets	•Having strong economic fundamentals and a stable political environment, Singapore will continue to attract foreign investments. •Foreign investors' interest in prime assets is expected to drive inbound transactions.	↑
Outbound Investments Singapore-based investors expected to continue their overseas investment search	•Amidst heightened competition at home, Singapore-based investors will continue to look outwards for investment opportunities. •Nonetheless, with global economy still in the doldrums, Singapore-based investors are likely to exercise caution and acquire only compelling, reasonably-priced assets.	↑

EXHIBIT 5

Major Private and Public Investment Sales, Q1 2016

Sector	Site / Development	Estimated Price (SGD million)	Buyers
Private Investment Sales – Top 5 Transactions			
Commercial	78 Shenton Way (50% stake)	$301.5 mil	A property fund managed by Alpha Investment Partners
Commercial	SBF Centre (levels 29 and 30 and eight units on levels 27 and 28)	$85.5 mil	A unit of the Asia-Pacific arm of Scor Reinsurance
Commercial	112 Katong (22.4% stake)	$51.4 mil	DC REIT Holdings Pte Ltd, a wholly-owned subsidiary of Keppel Land Ltd
Industrial	Harper Kitchen	$51.1 mil	A consortium led by The Nanshan Group
Commercial	Prudential Tower (#20-01)	$ 33.1 mil	Undisclosed
Public Investment Sales - Top 3 GLS Site			
Residential	Siglap Road	$624.2 mil	FCL Topaz Pte Ltd, Sekisui House, Ltd and KH Capital Pte Ltd
Residential	New Upper Changi Road/ Bedok South Avenue 3 (Parcel B)	$419.4 mil	CEL Residential Development Pte Ltd
Residential	Yio Chu Kang Road (Hougang E6)	$183.8 mil	Hoi Hup Realty Pte Ltd

Source: URA, Knight Frank Research

AUCTION

As Singapore's auction market moderated, the number of shops and shophouses being put up for auction and going under the hammer rose in Q1 2016. With banks and owners further adjusting price expectations, Q2 2016 is likely to see improved auction sales.

Properties Put Up for Auction

Number of properties put up for auction fell under the 150-unit mark

The total number of properties put up for auction dipped 19.4% quarter-on-quarter (q-o-q) or 24.6% year-on-year (y-o-y) to 141 units in Q1 2016. The shops and shophouses segment, being the one only that bucked the trend, witnessed a notable 145.5% q-o-q increase, with 27 units put up for auction in Q1 2016 (Exhibit 1).

Record High Percentage of Properties put up for Auction under Mortgagee Sale

60 properties were put up for auction under mortgagee sale, making up 42.6% of the auction market in Q1 2016– a record high percentage of properties put up under mortgagee sale. It was also the second quarter where mortgagee sale listings hit the 60-unit mark. 21 properties out of the 60 units put up for auction under mortgagee sale were fresh listings. This represented a 25.0% drop from the previous quarter where 28 units out of the 62 properties put up for auction under mortgagee sale were fresh listings.

Of the 60 units, 39 were residential properties, coming off from a high of 51 units in Q4 2015. On the other hand, the number of shops and shophouses put up for auction under mortgagee sale increased from zero unit in Q4 2015 to a record high of 10 units in Q1 2016. This could be attributed to a weak leasing market on the back of labour crunch and competition from e-commerce, causing property owners to face increasing difficulties in servicing their mortgage loan.

A higher proportion of landed properties put up for auction under mortgagee sale were located in the prime districts. Total number of residential properties in districts 1, 9, 10 and 11 put up for auction amounted to 25 units in Q1 2016, a 39.0% q-o-q decrease from Q4 2015 (41 units) and a 24.2% y-o-y decrease from Q1 2015 (33 units). Of these, 12 units were put up for auction under mortgagee sale. This represented 48.0% of all residential properties in the prime districts put up for auction, higher than that of 36.6% in Q4 2015 (15 out of 41 units) and 39.4% in Q1 2015 (13 out of 33 units). This was in line with the island-wide trend which saw a higher 45.9% (39 out of 85 units) of residential properties put up for auction being done so under mortgagee sale in Q1 2016, compared to 43.2% in Q4 2015 (51 out of 118 units) and 36.3% in Q1 2015 (45 out of 124 units). Three out of the 11 landed properties put up for auction under mortgagee sale in Q1 2016 were located in the prime districts. At 27.3%, this was higher than that of 17.6% in Q4 2015 (three out of 17 units) and 0% in Q1 2015 (zero out of nine units). Landlords who are highly leveraged could be facing difficulties in servicing their mortgage loans amidst the slow leasing market, particularly property owners of higher-priced prime properties.

In Q1 2016, properties below S$2.5 million and those between S$2.5 million to S$5.0 million made up a higher proportion of units put up for auction. At 60.0% and 31.9% respectively, both took a bigger share compared to 54.9% and 28.6% seen in the last quarter of 2015. Of these, the number of properties below the S$1 million-mark increased from 36 units in Q4 2015 to 37 units in Q1 2016. This represented 26.2% of the auction market, the highest since Q2 2013.

Properties Sold via Auction and Auctions Sales Performance

Number of properties successfully auctioned doubled from last quarter 2015 but total value of sold properties fell by 11.2% q-o-q

The number of properties successfully auctioned doubled from four in Q4 2015 to eight in Q1 2016. This translated to an overall success rate of 5.7%, a recovery from the record low 2.3% seen in the last quarter of 2015 but a decline from the high success rate of 8.0% witnessed a year ago. Despite the improvement in success rate on a quarterly basis, total sales value dropped by 11.2% to S$9.6 million over the same period. This dismal result also represented a significant 73.2% decrease from a year ago when S$35.8 million worth of auction sales was achieved (Exhibit 2). This could be due to an absence of big-ticket transaction in Q1 2016, with the largest deal being a conserved 2-storey intermediate shophouse at 617 and 617A Geylang Road which transacted at S$2.9 million.

Shops and Shophouses segment achieved the highest sales value

The industrial segment saw a favourable success rate of 9.1% (two properties transacted out of the 22 listings); while the residential segment only managed a success rate of 2.4% (two properties transacted out of the 85 listings) (Exhibit 1), a second consecutive quarter of decline and represented the lowest success rate since Q4 2013 (0%).

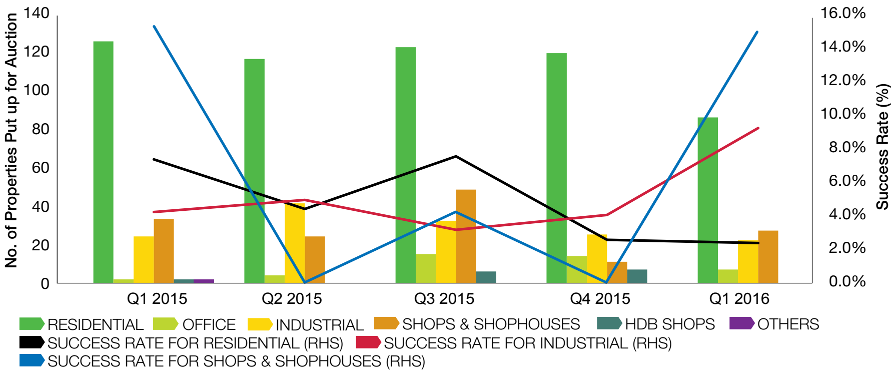
With four shops and shophouses out of the 27 units put up for auction going under the hammer, the segment achieved a remarkable success rate of 14.8%, with a total sales value of S$5.5 million to overtake the residential segment (S$2.5 million). This was a stark contrast to the lack of transactions witnessed in Q4 2015, albeit slightly lower than the 15.2% achieved in Q1 2015. Two key contributing factors were seen behind this performance - more owners of shops and shophouses showed stronger interest to offload their properties, while there is continued shift in buyers' preference to non-residential properties in an attempt to avoid the Additional Buyers' Stamp Duty (ABSD). In addition, some buyers view the potential capital appreciation stemming from the limited long-term supply and historic value of shophouses as a viable investment proposition.

The eight properties successfully auctioned comprised six units sold under mortgagee sale. Making up 75.0% of the number of properties going under the hammer and 61.1% of total sales value, mortgagee sale continued to dominate transactions since Q1 2015 (Exhibit 2). However, in terms of absolute sales value, mortgagee sale has declined 17.5% q-o-q and 72.3% y-o-y. At 10.0%, success rate for mortgagee sale increased from 4.8% in Q4 2015 but slipped from 18.5% a year ago.

The number of properties below S$2.5 million that were successfully auctioned increased six fold to seven units in Q1 2016. Sales value for this category increased in tandem by 14.6 times to reach S$6.7 million, making up 70.0% of total transaction value. Notably, all properties that were successfully auctioned in the first quarter of 2016 were under S$5 million.

EXHIBIT 1

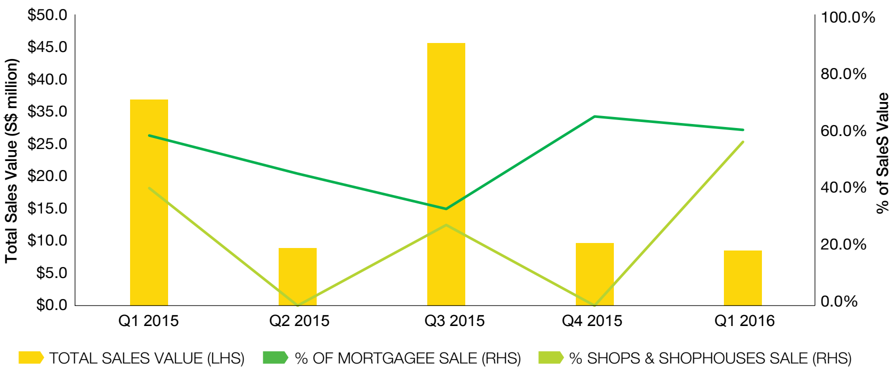
Number of Properties Put Up for Auction and Success Rate, by Property Types



Source: Knight Frank Research

EXHIBIT 2

Total Auction Sales Value, % Shops and Shophouses Sale and % Mortgagee Sale



Source: Knight Frank Research

Outlook

Auction listings and sales expected to increase

With auctions having gained acceptance and popularity as a viable way to market properties, the total number of properties put up for auction in H1 2016 can be expected to cross the 300-unit mark. In light of prevailing economic uncertainties and hikes in interest rates, the number of freshly listed properties put up for auction under mortgagee sale looks set to remain above the 20-unit mark. Coupled with a tepid leasing market amid tight foreign workforce policy and constrained accommodation budgets, the residential segment is envisaged to form the bulk of the properties put up for auction going forward. However, amidst waning retail sentiment, the number of shops and shophouses put up for auction is likely to continue on an upward trend. With potential buyers seeking to avoid ABSD, sales value for this segment should remain favourable.

The first quarter of 2016 has seen S$9.6 million worth of auction sales, a slip of 73.2% y-o-y. This was mainly due to the persistence in bid-ask price spread, especially for larger and higher-priced units. With banks and owners further adjusting price expectations, Q2 2016 is likely to see improved auction sales. Properties below S$2.5 million formed the bulk of the transactions in 2016. With potential buyers' ability to leverage constrained by the Total Debt Servicing Ratio (TDSR), this price quantum is likely to remain a sweet spot for the auction market.

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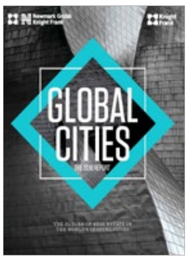

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