MARKET AND OPERATIONS

SINGAPORE Investment Properties

REVIEW OF OPERATIONS

OFFICE

Keppel Land's quality portfolio of investment properties includes Ocean Building, Ocean Towers, Keppel Towers, GE Tower, The Exchange and Bugis Junction Towers. All of these buildings continued to enjoy close to 100% occupancies.

Prudential Tower

Adding to its office portfolio are two upcoming premier office developments, Prudential Tower at Cecil Street and Capital Square at Church Street. Both projects are within close proximity to the Raffles Place MRT station, the Singapore Stock Exchange, financial institutions, trading and stockbroking houses, as well as law and other professional firms. The topping off ceremony for both Prudential Tower and Capital Square took place in December 1997.

Prudential Tower, a 30-storey office building with 250,000 sf of column-free lettable space, is directly linked to the Raffles Place MRT Station via an underpass. It has floor plates ranging from 5,000 sf to 12,000 sf.

Ocean Building is Keppel Land's flagship building.

To date, 56% of Prudential Tower's total office space has been sold. About 34% of the total office space (or seven storeys) has been taken up by Prudential Assurance Company Singapore, together with the naming rights of the building. Another 22% has also been sold to individual investors and owners, at an average price of between $2,100 and $2,200 psf.

MARKET REVIEW

Office Market

Decline in occupancy levels and rentals

Overall occupancy for office space island-wide dipped by 3.3% to 91.7%. This was due to the record supply of 3.8 million sf of office space that came onstream in 1997 as well as the knock-on effects of the regional financial crisis. Major projects completed during the year include Suntec City Towers 3 and 4 as well as Centennial Tower within the CBD, and OUB Tampines Centre in an outlying area. Moreover, firms affected by the regional financial crisis have started downsizing and scaling down their operations.

Average rentals for offices islandwide also declined by between 3% and 14% for the whole of 1997. As at end-1997, island-wide monthly rentals averaged $6.25 psf. Average monthly rentals for Raffles Place declined by about 10% to $9.50 psf. In line with falling rentals, average capital values for offices fell 6.3% to $1,325 psf. However, those in Raffles Place still command a premium of $2,200 psf in 1997.

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MARKET REVIEW

Regional financial crisis will affect demand
In the short-term, demand for office space will be affected by the slowdown in the local and regional economies. However, the regional turmoil has lowered office rentals in Singapore, bolstering its relative cost advantage against Asia’s other financial centres, Tokyo and Hong Kong. By the end of 1997, it was 35% cheaper to run an office here than in Hong Kong, and 26% cheaper than Tokyo.

Supply conditions are also expected to ease slightly in 1998 with an estimated 2.6 million sf of office space coming onstream, which is 32% lower than the amount completed in 1997. Significant projects to be completed include Keppel Land’s Prudential Tower and Capital Square. In the long-term, government incentives to attract foreign players to the financial services sector will also help generate demand for office space from fund managers and other finance-related operations setting up in Singapore.

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Capital Square

Capital Square comprises a 16-storey office tower which will yield 320,000 sf of Grade A office space, as well as 19 units of boutique office suites with an additional 49,000 sf of office space. The development will have the largest column-free floor plate in Raffles Place, spanning 31,000 sf per floor, with raised flooring throughout.

In May 1997, Keppel Land sold a 30% equity stake in the subsidiary developing Capital Square to Rodamco Pacific BV, a member of the Dutch Rodamco Group, one of the largest and most diversified property investment fund companies in the world.

Keppel Land has signed on Citibank N.A. and Morgan Stanley Asia as its tenants in Capital Square. Citibank, the anchor tenant, will take up 94,000 sf of floor space in the office tower for a lease of 18 years. Morgan Stanley will take up 60,000 sf on a 12-year lease with an option to extend by another six years. To date, Capital Square Office Tower is 47% committed.

Bugis Junction

Bugis Junction is a mixed development comprising an office tower, a five-star hotel and retail space. The office tower at Bugis Junction is enjoying near 100% occupancy, while the retail component was 98.3% occupied. The five-star Hotel Inter-Continental achieved a higher average occupancy of 79.4% in 1997, as compared to 68% achieved in 1996.

Since its opening in 1995, Bugis Junction has received several local and international awards. It won the Singapore Tourism Board Award for “Best Shopping Experience - Shopping Centre Award” for 1996 and 1997 consecutively. The awards were essentially for its novel approach to retail.

Parco Bugis Junction bagged the Singapore Tourism Board’s “Best Shopping Experience-Shopping Centre” award for the second year running.

SINGAPORE Residential, Industrial and Other Properties

REVIEW OF OPERATIONS

RESIDENTIAL

Existing Residential Projects

Leasehold

Keppel Land reinforced its position as a builder of affordable quality housing with the launch of 99-year condominiums, Palm Gardens and The Mayfair in March and October 1997 respectively, and the sale of terrace housing development, Villa Verde, in March 1998.

Palm Gardens, located at Choa Chu Kang Way, is fronted by two Light Rail Transit stations. The 694-unit development offers two to four-bedroom types ranging from 958 sf to 2,131 sf. Despite the soft market conditions, Palm Gardens was among the top ten best-selling residential projects in 1997. To date, 35% of the 139 units in Phase 1 has been sold.

The Mayfair, a 452-unit condominium development, has all the fittings and finishes that make for a quality home.

The Mayfair is located at Jurong East, within walking distance to the Chinese Garden MRT station. It comprises

MARKET REVIEW

Residential Market

Regional financial crisis among the main factors behind weak residential market

The residential market was hit by several factors in 1997. Speculative pressures on the Thai baht earlier in the year and the subsequent flotation of the Thai baht in July resulted in a full-blown financial crisis in the region. This exacerbated the already weak market sentiments caused by the implementation of the 15 May 1996 property curbs, and the introduction of credit assessment on subsidised mortgages in the HDB market in April 1997.

These, together with an oversupply of private residential units and higher interest rates, led to a 3 to 20% fall in average prices. Demand was also correspondingly lower with an average take-up rate of only 21% for some 9,400 private residential units launched during the year. Cumulative unsold stock is estimated to have reached a record 13,740 units as at end-1997.

Standoff between buyers and sellers

Another 31,000 new private residential units are expected to be launched in 1998 and 1999. These new projects will not only have to compete with the cumulative unsold stock but also with the executive condominiums now that the latter will be made fully available to those in the open category.

The prevailing standoff between buyers and sellers is likely to continue in 1998. Potential buyers may delay their decisions to buy due to economic uncertainties and in anticipation of further price consolidation. Developers, on the other hand, are likely to continue improving their pricing and marketing strategies such as guaranteeing buyers rental return and offering buy-back options and even cash of up to $50,000, or they may decide to defer the launch of some projects till sentiments improve.

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452 units of one to four-bedroom apartment types and penthouses, with sizes ranging from 635 sf to 1,496 sf. To date, 30% of the 142 units in Phase 1 has been sold. Apart from the usual full condominium facilities, both Palm Gardens and The Mayfair provide private lift lobbies and bowling alleys.

Villa Verde, which comprises 515 three-storey terrace houses at Choa Chu Kang North 5, received overwhelming response when it was launched in March 1998. All 435 units launched under Collezione 1 and 2 were sold out in just 10 days. Another 40 units under Collezione 3, which was launched in May this year, received similarly enthusiastic response. The remaining 40 units will be launched later this year.

Pebble Bay

Pebble Bay, a waterfront condominium located in the prime Tanjong Rhu area, obtained its Temporary Occupation Permit in October 1997. To date, 449 out of 510 units of Pebble Bay have been sold.

Villa Verde comprises 515 three-storey terrace houses.

MARKET REVIEW

Industrial Market

Supply of private industrial space increased but demand declined
The existing stock of private industrial space currently stands at 64.3 million sf, of which 12.7 million sf were completed in 1997. This was 25% more than the previous year. About two-thirds of the space completed in 1997 were factory space, while the rest was warehouse space. Demand in terms of sales transactions, however, fell by 15% due to an increase in supply and poorer business conditions caused by the financial crisis.

Rentals and capital values also dipped in 1997
Average rents for private industrial space declined by between 8% and 10% during the year, while average capital values fell by between 6% and 9%. The fall in rentals and capital values was partly in response to the large industrial space scheduled to come onstream as well as the Jurong Town Corporation's policy to freeze its industrial rents to maintain its competitiveness. As at end-1997, ground floor rentals stood at $2.10 psf, while upper-storey rentals were $1.90 psf. Capital values for ground and upper floors factory space averaged $800 psf and $530 psf respectively. For warehouse space, ground floor space averaged $880 psf while upper stories commanded an average of $675 psf.

Further consolidation expected in 1998
The private industrial market is anticipated to consolidate further in 1998 in view of uncertain economic conditions, particularly in the electronics sector, and the relatively large potential supply of private industrial space. An estimate of 35.3 million sf of private industrial space is scheduled to be completed between 1998 and 2000.

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Nassim Woods

Located between Napier Road and Nassim Hill, Nassim Woods is a 99-year leasehold upmarket condominium in a prime residential area. The 35 apartments range from 1,900 sf to 3,900 sf. The development is scheduled to be completed towards the end of 1998, and will be held for lease.

Recently Acquired Freehold Landbank

In 1997, Keppel Land's portfolio of residential properties grew with the acquisition of prime freehold land. They include four private sites in the established areas of Sixth Avenue, Sunset Way and Newton as well as one site at Loyang Besar.

The Avenue Park development along the serene residential enclave of Sixth Avenue is a joint venture with Singapore Bus Service (1998) Limited. This project will yield 162 apartments when completed.

The developments at Wee Nam Road and Lincoln Road will provide 340 units. Situated within walking distance to the Newton MRT station, these projects capitalise on the proximity to the Orchard Road shopping belt and the Central Business District. The 54-unit Loyang Besar condominium is within the Pasir Ris 21 plan to transform the town into a resort housing estate similar to Punggol 21.

These freehold condominium projects will be completed after Year 2000.

Industrial

Quartz Industrial Building is a high quality eight-storey industrial building located in the prime industrial estate of MacPherson. Except for a 30% retention block held for a single owner, the rest of the 118,400 sf of space in the 53 freehold strata units has been sold.

Orion Industrial Buiding offers 72 strata units.

Orion Industrial Building at Paya Lebar is strategically located fronting the Paya Lebar thoroughfare, near the Paya Lebar MRT station. Another freehold development, the property offers 72 strata units in a modern high-tech building. So far, 44 units have been sold and the rest is up for sale or lease.

Conservation Shophouses

Keppel Land has in its portfolio two rows of conserved shophouses, Heritage Court at Peck Seah Street and four shophouses at Joo Chiat Road.

Located within a two-minute walk from the Tanjong Pagar MRT station, Heritage Court is slated for commercial use. To date, seven out of eight units have been sold, while the ground floor of the remaining unit has been leased.

The four-unit three-storey shophouses at Joo Chiat Road are freehold properties for retail and commercial use. So far, one unit has been sold and another two third storey offices have been leased.