Monthly Property Market Update for October 2008

Introduction

The Pandora Box has been opened.

October began with some really bad news for the entire world, and ended with the worst stock market crash in three decades. At the time of writing this report in early November, the stock market is still battling to stay 'head above water'.

After two consecutive quarters of shrinking growth, Singapore is now officially in a technical recession. As it is, the domestic economy contracted by 0.5% in the third quarter (Q3) of 2008 year-on-year. The last time the island city was in a similar fix was 2002.

The Ministry of Trade and Industry (MTI) has lowered its expectation on full year growth of 2008 to 3% and cautioned that Singapore export might drop drastically, due to the rising unemployment and slumping home prices in the United States.

The Monetary Authority of Singapore (MAS) has eased its monetary policy in early October to combat slowing growth. To boost export, the MAS has shifted Singdollar to a neutral stance, making it cheaper in relation to other major currencies and thereby making domestic exports competitive. However, the flip side is that import of daily essentials, such as food stuff, will be more expensive, making life tougher for man-in-the-street.

On the real estate front, the private property segment was among the first to show the open-wound sustained from the stock market fall earlier. Prices of private homes fell by 1.8% in Q3 2008 – the first decline in prices in four-and-a-half years, officially ending the property boom that started in 2004. In fact, since Q2 2008, private property prices had been deadlocked within very narrow range, but they finally caved in after the buyers started to play the 'missing-in-action' (MIA) game.

All said, it is quite certain that we are in for an economic tailspin.

(A) The big picture of the larger economy

[A.1] Foreclosure crisis in US nowhere near end

Despite the US$700 billion rescue package to prevent banks in the US from going under, there has been no help from the US government to prevent foreclosure of homes. Since July 2008, the rate of foreclosures has been more than 2,700 homes a day.

According to the Mortgage Bankers Association in the US, more than four million homeowners throughout the US with a mortgage are at least one month late in their mortgage repayment. This is more than three times the total number of houses we have in Singapore.

A record 500,000 homes had entered the foreclosure process. For at least a year, no experts have correctly predicted the dire straits that the American homeowners are in today.

[A.2] Falling home prices see no reprieve

The home prices in the US have crashed, to put it mildly. The National Association of Realtors (NAR) said that in September 2008 alone, the median home price in the US dropped a further 9% from a year ago to US$191,600, and is down 17% from the peak in July 2006.

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Almost a quarter of the total homeowners in the US with a mortgage are staring at negative equity, and the percentage of homes with negative equity is expected to rise to 28% by the same month next year.

According to research by Freddie Mac, about 36% of mortgage delinquencies were caused by loss of income or unemployment in 2006. But in 2008, that number has risen to 45% as the unemployment rate has ticked up to a five-year high of 6.1 %.

The massive job losses in October 2008 would make the situation worse as more delinquencies might follow suit before Santa comes calling in December.

[A.3] No way to escape hard landing for Singapore

Alluding to the current crisis, an International Monetary Fund (IMF) study pointed out that economic downturns caused by failures of financial institutions such as banks and insurers are often more severe, and tend to last much longer.

Most economists expect the economic downturn in Singapore to drag for at least nine months in 2009 if not longer. Some even predicted that the crisis in the US will last through 2010.

And as far as Singapore is concerned, its trade revenue is about 2.5 times of its GDP; and given its openness (and thus vulnerability) to global economy and its export-orientation, it cannot escape the repercussions of external shock.

Domestically, the danger of contagion has started to show, beginning with the tighter credit and higher costs of borrowing which have started to eat into corporate earnings and curtailed capital spending. Even companies with strong balance sheets are watching their cash flows carefully. Consumer consumption which grew 10.5% last year may come down to a fraction of that figure in the next couple of years.

The consequences will be slower wage growth, lower consumer spending, cautious job market, plunging stock prices, and deflation of asset prices. Especially dangerous is the higher refinancing costs and declining home values which may put home owners at greater risk of negative equity.

[A.4] More companies in Singapore default on payments

Credit rating agency Dun and Bradstreet (Singapore) said more businesses are falling behind in making payments. Apart from construction, more local businesses in other sectors will fall into the high-risk pocket this year and next. The riskiest industry appears to be retail, where more than half of them are expected to fall behind in payments in 2009.

Based on monthly payment data collected from an average of 4,000 to 5,000 firms based here, D&B says 22.2% of them have a high risk of not meeting payments this year, up from 19.77% last year. And with MTI lowering the growth forecasts for this year to about 3%, the proportion of high-risk firms may rise to almost 30%.

With the recent shake-up in the global financial market, the aggressive SME (small and medium enterprises) banking and collateral-free term loans that the banks were dishing out in 2006-2007 period would be a thing of the past.

[A.5] Retail spending in Singapore down for third consecutive month

According to the Retail Sales Index released by the Department of Statistics (DOS) in mid October 2008, retail spending was down 5.8% from July 2008. For the third straight month in August, demand for cars and recreational goods dropped amid the country's first recession since 2002.

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Sales declined across the board from their July takings, with falls ranging from 3.6% to 20.4%.

A recent Straits Times survey of 62 tenants in six Orchard Road malls found retail revenues having plunged by as much as 30% from late September to mid October 2008, coinciding with bank failures, stock market routs and increased fears over the global financial turmoil.

[A.6] Even the once-revered REITs are now in trouble

Real estate investment Trusts (Reits), once touted as the safer investment in income-producing properties and a good substitute for direct investment of physical properties are now on shaky ground due to over-gearing in relation to their 'suddenly depleted' asset values (resulting from the recent stock market crash). The recent 'roller coaster ride' in their share prices had accentuated the risks of Reits.

[6.1] CMT puts works at three malls on hold

Due to high construction costs, Capitamall Trust (CMT) had, at the eleventh hour, pulled the plug on the upgrading plans for some of its properties.

The largest real estate trust in Singapore has reportedly said that it would not sacrifice liquidity for new projects. For now, enhancement programs that have not started at three malls - Funan DigitaLife Mall, Tampines Mall and Jurong Entertainment Centre (JEC) - have been put off.

This may have saved the largest Reit in Singapore $170 million in potential renovation costs. But the consequent loss of rental income from JEC for the following months (all JEC tenants had vacated before CMT decided to put the renovation work on hold) may negate the savings.

CMT said it had secured refinancing for $187.5 million and $80 million of loans due in December 2008 and May 2009 respectively; and is negotiating refinancing for $673.7 million due in August 2009. It is confident that funding would be secured.

[7.2] Worries of downgrading of credit rating

In the meantime, credit rating agencies have turned more pessimistic on two other real estate investment trusts (Reits) in Singapore: Frasers Commercial Trust (FCT) and MacarthurCook Industrial Reit (MI-Reit).

FCT, which was rated BB, was downgraded by Standard & Poor's (S&P) Ratings Services from positive to developing, on concerns over the $70 million it owed to the Commonwealth Bank of Australia, which will be due on 22 November 2008. Moreover, there are an additional $400 million and $150 million which would be due in July and December 2009 respectively.

S&P said that FCT had not finalised its refinancing plans to the level of certainty.

Separately, Moody's Investors Service yesterday placed MI-Reit's Baa3 corporate family rating on review for a possible downgrade. The review also recognised refinancing risks facing MI-Reit. Likewise, MI-Reit has $201 million or 91% of its total debt falling due next April, which is not covered by available committed facilities.

This sums up the desperate state many Reits are in right now.

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(B) The overall performance of Private Residential Property segment

Q3 officially ushered in the 'decline phase' of the property cycle with the overall prices of private homes down by 1.8%. More property consultants are jumping on the bandwagon by saying that prices are going to keep dropping deep into the second half of 2009, in view of the continuing financial turbulence and the global recession, which is still in its infancy. Below shows the performance of the respective geographic areas in Q3:

- In the Core Central Region (CCR), where the posh Orchard Road, Holland and Bukit Timah districts are located, private home prices fell for the second consecutive quarter, from the 0.1% marginal dip in Q2 2008 to the 2% drop in Q3.

- In the Rest of Central Region (RCR), from Queenstown, Bishan to Marine Parade and Sentosa, private home prices dropped by 2.1%.

- Private home prices in Outside Central Region (OCR) held steady and actually rose slightly by 0.1% in Q3 2008, after rising 0.9% in Q2 2008.

[B.1] Developers braving bad time to launch over 2,000 new homes in Q4

A total of 34 residential projects with a total of 2,012 new home units may be launched before year end. The new home units will be located at the following areas:

Table [1] – New home projects to be launched in Q4 2008

Locality	No. of projects	No. of units
Core Central Region	10	1,104
Rest of Central Region	13	718
Outside Central Region	11	730

Source of data – Straits Times

Evidently, developers had already slashed prices to try to bring down unsold inventory. In September, Far East Organisation and Wing Tai managed to sell eight units in Floridian after seven months of drought. But the median sale price of $1,443 psf was 16.8% lower than the January median prices of $1,735 psf.

Similarly, some units at Madison Residences along Bukit Timah Road were sold at median prices of $1,801 psf, or 10% lower than the median price a year ago.

Viva in Thomson Road and Park Infinia in Wee Nam Road achieved $1,555 psf and $1,501 psf - about 5% less than comparable projects early this year.

[B.2] Prices dropped amid lower transactions for luxury condo

While most of the luxury condo which were launched in the 2006/07 periods are still being transacted at above their original launched prices, the sub-sale prices have already come off their peak. Let's look at some examples.

Prices at The Oceanfront @ Sentosa Cove have eased 26.4% since the third quarter of 2007.

Prices at Scotts Square likewise fell by 3.6% between their peak in Q3 2007, and Q2/Q3 2008.

The drop in prices was muted by the thin transaction volume. There were only about 10 transactions for each project in Q2/Q3 2008.

Statistics by an international consultancy show that prices of luxury apartments in Districts 9, 10 and 11 have fallen by 12% to 13% since early 2008.

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Speculators who bought luxury homes under the now-defunct deferred payment scheme (DPS) may hasten their sale before the completion of more new condos next year. After all, historical trend does not weigh in their favour as during the Asian Financial Crisis, the official URA price index fell 40% from Q2 1997 to Q4 1998.

So, for these speculators, the risks of slipping into negative equity escalate each day as more TOP occurs from Q3 2009 onwards.

[B.3] Q3 Primary home sales continue to worry

The overall performance of the new home market in the past nine months has been a faithful reflection of the jitter, confusion and anguish that pervaded the entire financial market. As the financial crisis deepened in October 2008, the new home market bore the full brunt of the negative developments. With the latest round of stock market massacres in late October 2008, investors' have been paralysed by fear. Many prospective buyers/investors have shelved their housing/investment plans altogether. It is now doubtful that the whole year sale volume would exceed 5,000 new homes.

For the new home market, the prospect looks grim for the next couple of quarters.

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
Jul 08	3,841	1,322	897
Aug 08	3,754	194	320
Sept 08	4,154	767	376
	Total	**5,492**	**3,904**

Source of data – URA

- **Performance of Private New Home Sales in Core Central Region (CCR)**

Out of the 182 brand new condo projects on sale in the Core Central Region, only 16 projects had some sales. In all, the total new units sold in CCR in September 2008 were 70. See table below for details.

Table [3] – Performance of private new home sales in CCR in September 2008

	Project Name	**Units Launched in the Month**	**Units Sold in the Month**	**Lowest Price ($psf)**	**Highest Price ($psf)**	**Median Price ($psf)**
1	VIVA	19	19	1,470	1,600	**1,555**
2	Mulberry Tree	32	13	1,076	1,524	**1,337**
3	Parc Sophia	0	10	1,379	1,601	**1,491**
4	Madison Residences	12	6	1,734	1,822	**1,801**
5	Martin No 38	3	4	2,009	2,419	**2,177**
6	Park Infinia at Wee Nam	0	4	1,399	1,557	**1,501**
7	Lucida	0	3	1,374	1,501	**1,442**
8	D'Chateau @ Shelford	31	2	1,216	1,269	**1,243**
9	Orchard Scotts	0	2	2,509	2,932	**2,721**
10	Miro	18	1	1,520	1,520	**1,520**
11	Nassim Park	0	1	3,197	3,197	**3,197**

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	Residences					
12	Sandy Island	11	1	1,940	1,940	**1,940**
13	The Lincoln Residences	1	1	1,435	1,435	**1,435**
14	The Tresor	0	1	1,550	1,550	**1,550**
15	The Wharf Residence	0	1	1,524	1,524	**1,524**
16	Zenith	0	1	1,534	1,534	**1,534**

Source of data – URA

Finding – Median prices for new home SOLD in CCR in September dropped by 5.66%

When compared with the median prices of new home sold in January 2008, which was between $742 psf and $3,389 psf, the current median prices of new home sold in September was between $1,243 psf and $3,197 psf; and this represents a drop of 5.66% in median prices.

- **Performance of Private New Home Sales in Rest of Central Region (RCR)**

Out of the 123 brand new condo projects on sale in the Rest of Central Region, only 20 projects had some sales. In all, the total new units sold in RCR in September 2008 were 224. See table below for details.

Table [4] – Performance of private new home sales in RCR in September 2008

	Project Name	Units Launched in the Month	Units Sold in the Month	Lowest Price ($psf)	Highest Price ($psf)	Median Price ($psf)
1	Concourse Skyline	100	68	1,272	1,871	**1,592**
2	The Peak @ Balmeg	90	47	854	1,147	**1,011**
3	Tresalveo	60	41	902	1,045	**968**
4	Beacon Heights	50	12	825	972	**914**
5	Silversea	70	11	1,307	1,780	**1,400**
6	Clover By The Park	0	9	641	796	**749**
7	Floridian	0	8	1,397	1,540	**1,443**
8	Reflections	0	8	1,695	2,367	**2,086**
9	Dakota Residences	0	5	947	1,073	**983**
10	Jubilee Residence	0	3	910	1,011	**941**
11	Bellaville	0	2	575	582	**578**
12	The Aristo @ Amber	0	2	1,301	1,586	**1,443**
13	Cantiz @ Rambai	0	1	805	805	**805**
14	Ivory	0	1	883	883	**883**
15	Kent Residences	0	1	826	826	**826**
16	One @ Pulasan	0	1	763	763	**763**
17	The Amarelle	0	1	1,034	1,034	**1,034**
18	The Verve	0	1	995	995	**995**
19	Versilia On Haig	0	1	1,239	1,239	**1,239**
20	Vogx	0	1	788	788	**788**

Source of data – URA

Finding – Median prices for new home SOLD in RCR in September dropped by 5.56%

When compared with the median prices of new home sold in January 2008, which was between $653 psf and $2,309 psf, the current median prices of new home sold in September was between $578 psf and $2,086 psf; and this represents a drop of 5.56% in median prices.

- **Performance of Private New Home Sales in Outside Central Region (OCR)**

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Out of the 136 brand new condo projects on sale in the Outside Central Region, only 26 projects had some sales. In all, the total new units sold in OCR in September 2008 were 82. See table below for details.

Table [5] – Performance of private new home sales in RCR in September 2008

	Project Name	Units Launched in the Month	Units Sold in the Month	Lowest Price ($psf)	Highest Price ($psf)	Median Price ($psf)
1	Project Name	0	9	646	702	**677**
2	Livia	0	9	723	943	**749**
3	The Lakeshore	0	8	901	1,073	**947**
4	Eastbay	0	7	1,029	1,076	**1,036**
5	Hillvista	0	7	768	945	**909**
6	Naturalis	0	6	694	841	**738**
7	The Quartz	0	4	860	964	**940**
8	Kovan Residences	0	3	737	861	**849**
9	3@Sandilands	0	3	438	663	**501**
10	Charlton Villas	33	3	885	1,068	**960**
11	Riz Haven	23	3	583	628	**605**
12	Sovereign @ Simon	0	3	814	990	**908**
13	The Verte	0	3	714	791	**734**
14	Waterfront Waves	15	2	774	788	**781**
15	The Lattiz	0	1	476	476	**476**
16	Aston Residence	0	1	827	827	**827**
17	Bayou Residence	0	1	750	750	**750**
18	Blu Coral	0	1	736	736	**736**
19	Bluwaters 2	0	1	926	926	**926**
20	Breeze By The East	0	1	792	792	**792**
21	Costa Este	0	1	841	841	**841**
22	D'Casita	0	1	1,259	1,259	**1,259**
23	East Coast Residences	0	1	753	753	**753**
24	Palm Galleria	0	1	815	815	**815**
25	The Amery	0	1	570	570	**570**
26	The Linear	0	1	479	479	**479**

Source of data – URA

Finding – Median prices for new home SOLD in OCR in September dropped by 2.6%

When compared with the median prices of new home sold in January 2008, which was between $601 psf and $1,293 psf, the current median prices of new home sold in September was between $476 psf and $1,259; and this represents a drop of 2.6% in median prices.

[B.4] Secondary home market huffed and puffed in Q3

Likewise, secondary sale of private properties has hit a slippery path, with sales volume going down from 1,055 deals in July 2008 to 352 deals in October 2008, with no reprieve in sight. The figures below show the similar lacklustre performances of the private secondary market as its primary market counterpart.

Table [6] – Total Secondary Private Sales of condo/apartments so far in 2008

Month	Sales volume	Month	Sales volume
Jan	1,017	Jun	860
Feb	769	Jul	1,055
Mar	863	Aug	855
Apr	930	Sept	706

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May	994	Oct	352

Source of data – SISVRealink

[B.5] Fewer sub-sales and lower profit

There were a total of 462 sub-sales in Q3, compared to 518 such deals in Q2. In percentage terms, sub-sales accounted for 11.6% of all sale transactions in Q3, compared to 12.0% in Q2.

In the same period, the number of sub-sales in CCR accounted for 24.1% of total transactions in this area, compared to 22.0% in Q2. In RCR, it was 11.6%, higher than the 11.1% in Q2; while in OCR, sub-sales took up 7.3% of all deals, lower than the 8.5% in Q2.

- Dwindling sub-sale profits

So far this year, a vast majority of 97% of sub-sale deals have resulted in profits. But the profits seen in Q3 were very much smaller as property prices started to hit the slippery patch.

In Q3, profitable sub-sellers made an average of $323,420, but this was because a single deal which turned in $6.7 million profit from the sale of a penthouse at The Sail at Marina Bay had jacked up the average figure. Without the abnormality, the average sub-sale gain was $301,784. This was about almost 40% lower than the average profit in the first half of the year.

On the other hand, sub-sale losses for Q3 averaged $76,820 for each negative sale. A unit at Watermark Robertson Quay chalked up the biggest loss of $207,552, while units at Soleil at Sinaran, 8 at Mt Sophia, and One Amber were also sold at losses of more than $100,000 each.

[B.6] Rents are marginally down in Q3

The latest data released by Urban Redevelopment Authority (URA) in October 2008 showed rents of most property types marginally down in Q3 2008. This may signal the beginning of a gradual down trend in rents.

In Q3, the private residential rents dropped by 0.9%; office rents were down by 0.8%; and rents for retail space cheaper by 0.6%. Bucking the down trend was industrial rents which went up marginally by 0.1% in the same period.

(C) The performance of Non-Residential Property segment

Due to the desperate financial situation in the United States and Europe, many foreign companies in Singapore are either cutting back on their expansion plans, or are giving up their queue position in the 'wait listing' for the spanking new offices to be completed later next year. With such a cautious mood ongoing from Shenton Way to Orchard Road, the only way office and shop rents can go is further South.

[C.1] Price for office property drop by 2% to 3%

In Q3 2008, capital values of office properties fell 2% to 3% 'quarter-on-quarter' in areas such as Marina Centre and Anson Road/Tanjong Pagar as demand softened. Some redevelopment projects scheduled to start work this year, such as International Factors Building, Robinson Tower and Marina House, have been put back into the leasing market. This will provide further impetus to the downward slide of office rents.

At the same time, due to the financial crisis that is raging in the US and Europe, office vacancies continue to rise. Grade A office vacancy has doubled in Q3 2008, rising from 0.6%

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in the previous quarter to the current 1.2%. The increase in vacancy also contributed to the downward pressure on office rents.

[C.2] Both rents and sale prices for retail space eased in Q3 2008

The overall rentals for shop and retail space in Singapore, based on leases which had commenced, decreased by 0.6% in Q3 2008, as compared with the increase of 5.2% in Q2 2008.

The median rental for shop space in the Orchard Planning Area (Orchard), Rest of City Area (RCA) and Outside City Area (OCA) are also down marginally to S$10.99, S$6.83 and S$5.68 psf pm respectively in Q3 2008.

Average prime first-storey monthly rents came to $42.40 psf in Orchard/ Scotts Road, $27.10 psf in other city areas and $33.70 psf in suburban areas. However, with ample supplies of retail space in Orchard Road, average rents for retail space look set to ease from 2009 onwards.

Meanwhile, the Monetary Authority of Singapore (MAS) said in its latest macro-economic review that retail sales volume fell 1.5% year-on-year from June to August, due to cautious local spending and lower demand from tourists. The central bank added that retailers could see slower business towards Christmas and into next year.

[C.3] Factory space bucking gloomy trend

On the other hand, demand for industrial space remains strong with business park occupancy averaged 92.5% in Q3, up 2% from the previous quarter.

Despite the gloom and doom in the residential property segment, strata-titled factories are doing just fine. The average capital value of 60-year leasehold strata-title factory units rose about 2.3% from Q2 to $309 psf and $225 psf respectively for ground- and upper-floor units.

The heightened activities in the light industry sector have been caused by active pre-letting of business park space by financial institutions.

The average monthly rent for factory space rose 3.2% from Q2 to $1.60 psf for ground-floor units and 3.8% to $1.35 psf for upper-floor units. The average monthly rent for warehouses stayed flat at $1.55 psf and $1.25 psf respectively for ground and upper-floor units.

(D) The performance of Collective Sales

[D.1] Parkway Centre going for $1,000 psf ppr

Parkway Centre in Marine Parade has received the mandatory 80% majority consent to go on collective sale for an indicative price of about $160 million. This works out to about $1,000 per square foot per plot ratio.

The 99-year leasehold Parkway Centre, which is directly opposite Parkway Parade, has three retail shop units and 107 office units. The retail rental is around $25 to $30 psf per month, and the office rental, $4 to $5 psf per month.

So far this year, the only successful collective sale was Katong Mall, which was sold in July 2008 for $865 psf ppr. In other words, the asking price of Parkway Centre is around 15% higher than the sale price of Katong Mall.

[D.2] Regent Court collective sale may go through after all

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The High Court has ruled that the Strata Titles Board (STB) must continue to hear the appeal by the Regent Court's collective sale committee against the STB's decision.

The collective sale deal of Regent Court was struck in April 2007 for $34 million.

In December 2007, the STB rejected the application for a sale order citing that one of the objectors had suffered financial loss. Financial loss was defined as the sale proceeds not being sufficient to cover a property owner's initial purchase price.

Appealing against the rejection, the sale committee revealed that the purchaser was willing to cover the losses of the individual objector. But the STB did not consider the merit of the argument.

(E) Foreign Interest in Singapore Real Estate

[E1] Foreign banks remain committed to Singapore

As more and more people see American banks and financial institutions as poisoned chalices, the firms in Asia are busy trying to counter all the negativities.

JP Morgan took pains to assure that their Asian operations are not affected by the turmoil in the US.

Meanwhile Citi said it is committed to staying invested in Singapore, which is a key market for Citi globally. The US bank has committed $220 million to integrate its back-office operations at Changi Business Park.

In the same vein, Barclays said it will continue to grow its business in Singapore and the wider Asia-Pacific region when opportunities arise.

[E2] German fund bought Changi Business Park building

The Applied Materials Building in Changi Business Park Vista has been sold to German fund manager Union Investment Real Estate for $63 million.
The 198,000 square foot industrial facility is sold on a 30 plus 30-year lease, with a sale-and-leaseback agreement.

Union Investment entered the Singapore market in 2007 with its purchase of Vision Crest's office block and the House of Tan Yeok Nee next door in the Penang Road/Clemenceau Avenue area for a total of $260 million.

[E.3] Largest commercial buildings buyer in trouble

Macquarie bank shares had lost some 41% of their value from mid September 2008. The bank has significant investments in Singapore, including all of Macquarie's operating groups, and the HQ of its Asia corporate advisory team here.

The bank's independently managed private equity real estate company Macquarie Global Property Advisors (MGPA) was the biggest foreign investor in Singapore's property market in 2007.

Earlier this year, MGPA said that it will spend about $2 billion building a 2.6 million sq ft commercial complex on two development sites at Marina View that it clinched last year. With the sites having costs close to $3 billion, the total investment will come to around $5 billion. It is also the largest foreign broker and the largest issuers of warrants.

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

In October, another opportunistic bid was snubbed by URA. It was the fifth 'sole bid' that was rejected by URA. More frequent rejections by URA in its tender exercises, as well as more instances of sole bids received at respective tender exercises are symptomatic of a waning market.

[F.1] Two bidders for Ubi industrial site

In the state land tender of an industrial site at Ubi Avenue 4 in early October 2008, the URA received only two bids for the 123,693 sq ft site which has a maximum plot ratio of 2.5.

Eventually, it was Sim Lian Land which won the award at $26.3 million, or about $85 per sq ft per plot ratio (psf ppr). The winning bid was 13.6% higher than the only other bid of $75 psf ppr.

[F.2] Only one bid for URA industrial site at Kallang Pudding

The URA tender for an industrial site on Kallang Pudding Road received only one bid in early October 2008.

Orion-Four Development has put in a $10.8 million bid for the 61,819 square feet site with a 2.5 plot ratio. If awarded, the developer's cost will be around $69.88 per sq ft per plot ratio (psf ppr). It will be much cheaper than the $85 psf ppr Sim Lian had paid for the Ubi Ave 4 industrial site earlier this month.

The previous successful bid prices for leasehold industrial sites in the vicinity were $88.74 psf ppr for a 60-year leasehold industrial site at Ubi Avenue 4/Ubi Road 2 in March 2008; and $142 psf ppr for an industrial site in Playfair Road in Ubi/Paya Lebar/Eunos area in February 2008.

[F.3] Sole bid for URA hotel site at Kallang/Jellicoe

A Hotel 81 subsidiary has put in the sole bid of $51 million for the hotel site at Kallang Road/Jellicoe Road in a state land tender conducted by the URA. If awarded, the developer's costs will be around $249.56 per square foot per plot ratio (psf ppr).

With a plot ratio of 4.5, the future hotel will have a permissible gross floor area (GFA) of 204,363 sq ft.

[F.4] Tanah Merah condo site received keen bids

A 99-yr lease condo site next to Tanah Merah MRT attracted seven bids when it was put on sale by the URA. The top bid of $84 mil or $282 psf was from TID, a joint venture between Hong Leong Group and Japan's Mitsui Fudosan.

The 106,299 sq ft plot has a 2.8 plot ratio and can be developed into a condo with 240-250 units averaging 1,200 sq ft. The breakeven cost for a new condo is likely to be $700-750 psf, translating to possible sale prices ranging from $800-850 psf.

[F.5] Opportunistic bid for Mohd Sultan office site rejected

URA has snubbed the sole bid - submitted by RSP Architects Planners & Engineers - for a transitional office site in Mohamed Sultan Road, citing low tender price.

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The sole bidder has put in an opportunistic bid of $4.65 million, which was equivalent to $46.67 per sq ft per plot ratio (psf ppr). The site area is 66,482 sq ft with the maximum permissible gross floor area (GFA) of 99,727.5 sq ft.

(G) Overall performance of the HDB resale market

Despite the general gloom in the private property sector, the HDB resale market is a picture of boom in Q3 of 2008. Below shows the encouraging statistics, including:

- The HDB resale price index rose by 4.2% in Q3 when compared with Q2.
- Resale transactions rose by about 4% in Q3 to 8,110 cases, from about 7,760 cases in Q2 2008.
- The overall median transacted prices for HDB resale flats are also on a steady climb (see table[7]).

Table [7] – Overall median prices of all flat types increased across the board

Overall median prices	3-Room	4-Room	5-Room	Executive Flats
Q2 2007	$171,000	$241,000	$300,000	$358,000
Q3 2007	$185,000	$256,000	$319,000	$380,000
Q4 2007	$197,000	$273,000	$340,000	$415,000
Q1 2008	$207,800	$285,000	$355,000	$432,500
Q2 2008	$220,000	$300,000	$368,900	$446,000
Q3 2008	$232,000	$313,000	$380,000	$455,000

Source of info – HDB inforweb

[G.1] Cash-Over-Valuation (COV) dropped as resale volume rose

The overall median Cash-over-valuation (COV) prices also dropped, except for 3-room flats. As the resale prices and resale transaction volume rose, the cash portion reduced correspondingly. This may be a result of HDB market valuation prices being more responsive to the market condition.

Table [8] – Except for 3-room flats COV for all flat type decreased

	3-Room Flats		4-Room Flats		5-Room Flats		E-Flat	
	Median		Median		Median		Median	
Period	Resale prices	COV	Resale prices	COV	Resale prices	COV	Resale prices	COV
Q3 '08	$232,000	$19,000	$313,000	$20,000	$380,000	$17,000	$455,000	$18,000
Q2 '08	$220,000	$18,000	$300,000	$20,000	$368,900	$21,000	$446,000	$24,900
Q1 '08	$207,800	$18,000	$285,000	$22,000	$355,000	$25,000	$432,500	$30,000
Q4 '07	$197,000	$18,900	$273,000	$22,000	$340,000	$26,000	$415,000	$33,500

Source of info – HDB inforweb

Cases requiring COV constituted 89% of all resale transactions in Q3, with 11% of resale flats sold at or below valuation.

[G.2] HDB flat dwellers' share of private home purchases rose to 34%

HDB upgraders' share of private home purchases rose to 34% in Q2 2008 from 28% share in Q1 2008. This is the highest quarterly figure in at least three years. For instance, in absolute terms in Q2, HDB upgraders picked up the most number of units in The Verve in the Balestier area - 36 - followed by 32 at Stadia at Yio Chu Kang Road in the primary market (from developers). Proportionately, The Quartz was the most popular with 86% of its buyers being previous HDB flat dwellers.

HDB upgraders have also been more active in Q2 in the secondary market, where prices have dropped by as much as 10 to 12 % in Q2 2008 over Q1 2008 in some instances. The

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number of private apartments/condos changing hands in the subsale market bought by those with HDB addresses increased 52% Q-on-Q to 152 deals in Q2 2008.

[G.3] Sub-letting rents movement uneven in Q3

For HDB flats whose owners have received the approval from the authority for 'whole flat subletting', the overall median rents rose by between $50 and $100 for different flat types in Q3. However, when compared to the same quarter of last year, the increase in the overall median rents was more pronounced by between $200 and $400 for different flat types.

However, subletting transactions fell about 4% from about 4,120 cases in Q2 to about 3,960 cases in Q3.

The total number of HDB flats approved for subletting rose to about 21,400 units, compared to about 20,200 units in Q2.

[G.4] Resale transaction in October 2008 dropped by 105 cases

The total resale HDB flat transactions in October dropped by 105 cases (or 4.21%) to 2,389 transactions. When compared with October 2007, this October's performance was also poorer by 74 transactions. A couple of reasons may have contributed to the drop in HDB resale transactions, including:

(4.1) The stock market turmoil in October 2008 may have terrified some prospective buyers into a more reflective mood. After all, this was one of the worst stock market meltdown in three decades.

(4.2) Over the past one year, the absolute price quantum of resale flats has gone up by more than 10% across the board (see table 8), and many prospective buyers might have been put off by the high asking prices. This can be seen from the even drop pattern involving all flat types (see shaded portion of Table [9]).

The percentage drop in 3-room flat transactions was 2.45%, while the drop for the other flay types are 2.71% for 4-room flats, 7.83% for 5-room flats, and 4.71% for E-flats.

Table [9] –Comparison of monthly total HDB resale transactions from January to June 2008

2008	3-room	4-room	5-room	E-Flats	Total
January	680	837	597	192	2,306
February	635	768	495	146	2,044
March	613	806	569	162	2,150
April	664	909	602	164	2,339
May	638	816	544	181	2,179
June	628	854	584	192	2,258
July	652	910	680	214	2,456
August	653	769	577	187	2,186
September	692	922	689	191	2,494
October	675	897	635	182	**2,389**

Source of info – HDB inforweb

Table [10] – Resale HDB flat Transactions in October 2008

	3-Room	4-Room	5-Room	E-Flats	Total
Ang Mo Kio	87	31	10	0	128
Bedok	62	45	33	5	145
Bishan	1	27	12	1	41
Bt Batok	36	57	14	8	115
Bt Merah	38	27	18	0	83
Bt Panjang	13	39	23	7	82

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Bt Timah	2	3	0	2	7
Central Area	14	5	0	0	19
Choa Chu Kang	9	50	45	7	111
Clementi	44	11	5	0	60
Geylang/Aljunied	33	14	10	4	61
Hougang	23	54	21	15	113
Jurong East	17	22	16	10	65
Jurong West	39	71	58	19	187
Kallang Whampoa	46	23	10	0	79
Marine Parade	8	4	7	0	19
Pasir Ris	0	18	30	18	66
Punggol	0	19	46	7	72
Queenstown	49	11	6	1	67
Sembawang	0	26	39	6	71
Sengkang	0	51	76	11	138
Serangoon	12	25	13	8	58
Tampines	29	71	40	20	160
Toa Payoh	50	23	14	2	89
Woodlands	19	100	70	25	214
Yishun	44	70	19	6	139
Total	675	897	635	182	**2,389**

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Annex A

Case Study – **"Is it worth the risk to invest now?"**

The answer is a resounding 'Yes' as rental yield is still attractive at gross yield of over 4% per year.

Let's take three examples from the recently completed 99-year leasehold condo and three examples from an old condo and work out the investment yield. The basic assumption in the workings of the investment yield is "80% leverage at an interest factor of $436 for every $100,000 borrowed".

Table [a] – showing the details of sale prices at the respective projects

Unit	Project Name	Floor Level	Floor Area (sq ft)	Floor Rate ($ psf)	Price ($)	Contract Date
A	Citylights	16	1,356	598	810,900	29/09/2008
B	Citylights	18	678	654	443,272	22/08/2008
C	Citylights	40	1,851	1,237	2,290,000	14/08/2008
D	Bayshore Park	21	1,292	813	1,050,000	12/09/2008
E	Bayshore Park	20	1,173	809	949,388	02/09/2008
F	Bayshore Park	16	936	863	808,000	06/08/2008

Source of data: SISVREALINK

The Q3 2008 rents released by the Urban Redevelopment Authority (URA) for both the projects in the case study are as follows:

Table [b] – showing the details of rents collected at the respective projects in Q3 2008

District	Project Name	$psf pm		
		25th Percentile	Median	75th Percentile
8	Citylights	4.23	5.13	5.75
16	Bayshore Park	2.77	3.05	3.52

Source of data: URA

[A] Working of Rental Yield for Citylights units

		Unit A	**Unit B**	**Unit C**
	Size	1,356 sq ft	678 sq ft	1,851 sq ft
	Floor Level	16th	18th	40th
A	Sale price	$810,900	$443,272	$2,290,000
B	Equity	$210,900	$143,272	$490,000
C	Borrowing	$**6**00,000	$**3**00,000	$**1,8**00,000
D	Repayment per annum	436 x **6** x 12 =$31,392	436 x **3** x 12 =$15,696	436 x **18** x 12 =$94,176
E	Rent (psf p.m.)	$5.00	$5.13	$5.75
F	Rent (p.m.) [size] x [E]	$6,780	$3,478	$10,643
G	Gross Rent per annum	$81,360	$41,736	$127,719
H*	20% outgoings	$16,272	$8,347	$25,543
I	Gross income= [G] –[H]	**$65,088**	**$33,389**	**$102,176**
J	Net income = [I] –[D]	$33,696	$17,693	$8,000
K*	Net Yield = [I] ÷ [A]	8.02%	7.53%	4.46%
L*	Equity Dividend Rate = [J] ÷ [B]	15.97%	12.34%	1.63%

Note*

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- **Item [H]** – the 20% outgoings comprise 10% in property tax, between 4% and 10% in maintenance fees, between 4% and 8% in agent's commission. The outgoings could be higher for older properties due to higher costs in repairs.

- **Item [K]** in the above table assumes that the property owner does not leverage at all. The 'net yield' is the return on investment, after deducting all costs of property ownership, including property tax, maintenance fees, agent's commission, assuming the property owner uses 100% of his own capital to pay for the property.

- **Item [L]** Equity dividend rate is the return on the amount of investor's own money, after deducting the above costs of property ownership and the repayments of the housing loan in item [D].

[A.1] Findings of the case study

It is every investor's dream comes true at Citylights. This is because all the landlords are able to attract high rents, probably due to the following factors:

(a) Citylights is a newly completed condo project;
(b) It is within a short drive to the Central Business District;
(c) It offers nice sea view;
(d) It is very near to MRT station.

However, the buyer for Unit C has probably overpaid for the top-floor unit.

[B] Working of Rental Yield for Bayshore Park units

		Unit D	**Unit E**	**Unit F**
	Size	1,292 sq ft	1,173 sq ft	936 sq ft
	Floor Level	21	20	16
A	Sale price	$1,050,000	$949,388	$808,000
B	Equity	$250,000	$249,388	$208,000
C	Borrowing	$**8**00,000	$**7**00,000	$**6**00,000
D	Repayment per annum	436 x **8** x 12 =$41,856	436 x **7** x 12 =$36,624	436 x **6** x 12 =$31,392
E	Rent (psf p.m.)	$3.52	$3.05	$2.77
F	Rent (p.m.) [size] x [E]	$4,547	$3,577	$2,592
G	Gross Rent per annum	$54,574	$42,931	$31,112
H*	20% outgoings	$10,914	$8,586	$6,222
I	Gross income= [G] –[H]	**$43,660**	**$34,345**	**$24,890**
J	Net income = [I] –[D]	$1,804	($2,279)	($6,502)
K*	Net Yield = [I] ÷ [A]	4.15%	3.61%	3.08%
L*	Equity Dividend Rate = [J] ÷ [B]	0.72%	Negative	Negative

[B.1] Findings of the case study

- Bayshore Park units too expensive

As it is, at the current price level, Bayshore Park units are too expensive due to the very low equity dividend rate (Item L above). In other words, Bayshore Park is not suitable for highly-leveraged investment at this point in time.

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The rampant speculation six months back about a possible collective sale for the project had definitely inflated the sale prices beyond reasons. Therefore, those who had bought into the old project may have gone in with the hope for the collective sale windfall.

As such, some of them may be adopting a strategy of holding out until the project is eventually sold collectively in the next boom cycle.

- Other unfavourable factors for highly-leveraged investment

  (1) Bayshore Park is right smack at a densely populated neighbourhood with competitive rents;
  (2) Bayshore Park is more than 30 year old and the interior fixtures may not suit the requirements and liking of younger tenants.

- The need for a different investment strategy

From the case study, it is ascertained that the investment strategy for aged 99-year leasehold property in general, and Bayshore Park in particular, must be different from investing in a 'newly-TOP' leasehold project, such as Citylights, where buyers can adopt a highly-geared strategy and enjoy regular cash flow.

For an old leasehold project, such as Bayshore Park, the investors must adopt either of the two approaches:

(1) sit out the lull period without using any financial leverage and go for the end-game, i.e. capital gain through disposition (and in this case, collective sale); or
(2) buy at extremely low prices – low enough to factor in future declining rents which may occur due to physical deterioration of the property, or due to competitions coming from newer projects.

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Annexe B

Case Study – **"Are Freehold properties a better investment than leasehold properties?"**

It is hoped that the findings of this case study will provide real estate agents with valid arguments to correct customer's wrong perception that freehold properties offers better investment value than 99-year leasehold properties.

The comparison is based on the latest available sale as well as rental prices at the respective projects. And basically the argument is this: "Even when buyers buy at today's market price and rent out the property at today's market rent, any 99-year leasehold properties in Singapore still offer a very healthy yield – provided the buyers know how to pick a sure winner".

The workings are shown below:

Table [a] – showing the details of sale prices at the respective projects

Unit	Project Name	Floor Level	Floor Area (sq ft)	Floor Rate ($ psf)	Price ($)	Contract Date
G	Orchid Park	04	1,141	500	570,000	07/10/2008
H	Orchid Park	09	1,195	502	600,000	11/08/2008
I	Orchid Park	11	1,733	501	868,000	25/09/2008
J	Bullion Park	05	1,259	598	753,000	19/08/2008
K	Bullion Park	08	1,259	626	788,000	11/07/2008
L	Bullion Park	11	1,259	643	810,000	25/08/2008

Source of data: SISVREALINK

Table [b] – showing the details of rents collected at the respective projects in Q3 2008

District	Project Name	$psf pm		
		25th Percentile	Median	75th Percentile
27	Orchid Park	2.07	2.26	2.35
26	Bullion Park	2.32	2.54	2.91

Source of data: URA

[A] Ascertaining investment yield of a 99-year leasehold condo – Orchid Park

The basic assumption in the workings of the investment yield is "80% leverage at an interest factor of $436 for every $100,000 borrowed".

		Unit G	**Unit H**	**Unit I**
	Size	1,141 sq ft	1,195 sq ft	1,733 sq ft
	Floor Level	4th	9th	11th
A	Sale price	$570,000	$600,000	$868,000
B	Equity	$170,000	$150,000	$218,000
C	Borrowing	$**4**00,000	$**45**0,000	$**65**0,000
D	Repayment per annum	436 x **4** x 12 =$20,928	436 x **4.5** x 12 =$23,544	436 x **6.5** x 12 =$34,008
E	Rent (psf p.m.)	$2.07	$2.26	$2.35
F	Rent (p.m.) [size] x [E]	$2,361	$2,700	$4,072
G	Gross Rent per annum	$28,332	$32,400	$48,870
H*	20% outgoings	$5,666	$6,480	$9,774
I	Gross income= [G] –[H]	**$22,666**	**$25,920**	**$39,096**
J	Net income = [I] –[D]	$1,738	$2,376	$5,088
K*	Net Yield = [I] ÷ [A]	3.97%	4.3%	4.5%

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L*	Equity Dividend Rate = [J] ÷ [B]	1.02%	1.58%	2.33%

Note*

- **Item [H]** – the 20% outgoings comprise 10% in property tax, between 4% and 10% in maintenance fees, between 4% and 8% in agent's commission. The outgoings could be higher for older properties due to higher costs in repairs.

- **Item [K]** in the above table assumes that the property owner does not leverage at all. The 'net yield' is the return on investment, after deducting all costs of property ownership, including property tax, maintenance fees, agent's commission, assuming the property owner uses 100% of his own capital to pay for the property.

- **Item [L]** Equity dividend rate is the return on the amount of investor's own money, after deducting the above costs of property ownership and the repayments of the housing loan in item [D].

[B] Ascertaining investment yield of a Freehold condo – Bullion Park

		Unit J	**Unit K**	**Unit L**
	Size	1,259	1,259	1,259
	Floor Level	05	08	11
A	Sale price	$753,000	$788,000	$810,000
B	Equity	$153,000	$188,000	$210,000
C	Borrowing	$600,000	$600,000	$600,000
D	Repayment per annum	436 x **6** x 12 =$31,392	436 x **6** x 12 =$31,392	436 x **6** x 12 =$31,392
E	Rent (psf p.m.)	$2.32	$2.54	$2.91
F	Rent (p.m.) [size] x [E]	$2,920	$3,197	$3,663
G	Gross Rent per annum	$35,040	$38,364	$43,956
H*	20% outgoings	$7,008	$7,672	$8,791
I	Gross income= [G] –[H]	**$28,032**	**$30,692**	**$35,165**
J	Net income = [I] –[D]	($3,360)	($700)	$3,773
K*	Net Yield = [I] ÷ [A]	3.72%	3.89%	4.34%
L*	Equity Dividend Rate = [J] ÷ [B]	Negative	Negative	1.79%

It means that if the owners of units J and K do not leverage their investments, they will have a net yield of 3.72% and 3.89% respectively. But if they have leveraged their investment, the higher the leverage, the riskier the investment will become.

[C]Findings of the case study

Freehold properties do not necessarily offer better investment value, as can be seen from the above comparison between Bullion Park and Orchid Park condominiums.

- Freehold 'premium' does not mean better financial incentives

The net yield of the three sample units at the Freehold Bullion Park condo is between 3.72% and 4.34% respectively. They are a shade lower than the net yield of between 3.97% and 4.5% produced by the three sample units at the nearby 99-leasehold Orchid Park condo.

It means that the additional premium of $120 to $150 psf the Bullion Park owners paid for the freehold status of their investment did not bring them any additional financial incentives, when compared with a leasehold property.

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In other words, not only have the investors not maximising their own capital, but they have exposed themselves to higher investment risks by paying higher prices for the investment units. On practical terms, the tenants of both the two nearby condos use the same MRT station, travel the same bus route, and/or pay quite similar taxi fares everyday. The freehold status itself does not confer upon the tenants any added advantages. As such both the condos are attracting rents within the same narrow range $2.20 to $2.50 psf per month.

- Eng game – capital gain from collective sale

In fact, the freehold condo also does not enjoy any additional advantages over the leasehold condo project in the end-game, i.e. collective sale for redevelopment, because their respective investment value is quite similar (as they are attracting more or less similar rents).

On the contrary, when more Singaporeans become more investment savvy, the freehold condo may stand to lose out in collective sale windfall as developers may not be keen to pay beyond the project's fundamental value – which comes from the rents it collects.

- Freehold tenure not a consideration for tenants

More specifically, the reasons that lead to negative yield of the Bullion Park condo (or for that matter, poor yield for all freehold condos in Singapore) are as follows:

(1) For tenants in general, the tenure of the condo project is never a consideration at all.
(2) Tenants will only pay a premium rents (high rents) if the property offers a lot more convenience, such as proximity to a MRT station, or beautiful sea view etc.
(3) Everything being equal, tenants prefer new condos with modern fixtures to old condo with outdated and obsolete designs, regardless of its tenure.

Annex [C] - Skill Enhancement Training
How to react to tough questions using the latest market information/knowledge

Part One: "Why should I invest in property now?"
[Referring to the Case Study of Bayshore Park investment yield]

Prospective buyer	*Tell me Sam, what is the point of investing in a condo, going through all the hassles, taking all the risks, and earning so little in interest? I might as well put the money in the fixed deposit and earns the same interest.*
Agent	Sir, I think you have missed some very important points here. Yes, the equity dividend rate looks pathetic at first glance (Referring to the Bayshore Park case study). But sir, you must understand that the 4.15% yield is after you have paid off ALL the costs in property ownership, including property tax, total maintenance fees, and agent's commission. In fact, property investment is always better and safer than putting the money in the banks – which are only given the government's 'no risk' guarantee a few weeks ago. Has anyone explained to you how property investment can work to your advantages in the long term? May I have the privilege of explaining it to you, sir?

Prospective buyer	*Why not? Tell me how such a risky investment like buying into a old condo beats putting money in the Fixed Deposit Savings, which is totally 'risk free'?*
Agent	Sir, real estate investments offer, among other things, one benefit that no savings plan can beat, that is, you will become the proud owner of an property that provides passive income to you everyday.
Prospective buyer	*What is 'passive income'?*
Agent	You and I are earning 'active income' right now. If we stop work, our income stops. When a landlord stops work, his income continues to flow from the rents he collects from his property investment. This is called 'passive income', which means you don't have to work actively for it. The property works for you. But sir, I must remind you that only properties bought cheaply during 'bad times' will be able to provide good 'passive income'. If you buy the property during the bull-run market (or over-pay for the property), you expose yourself to some investment risks. Do you like to know more about the difference between a leverage investment and risk-free savings?
Prospective buyer	*Why not? Tell me more about it.*
Agent	When you put $250,000 in the Fixed Deposit savings, the money does not grow, except by the small percentage that the interest rate gives you. But for property investment, the capital value of the property will grow over time due to economic growth, inflation, and the specific demand and supply situation in the market. So as you reduce your debts every month on the one hand, your equity in the investment property increases on the other hand. Do you realise that Fixed Deposit Savings cannot do this for you? Moreover, if you have purchased the property at a low time, such as now, the capital value can only appreciate when the economy picks up its pace again, and in a short period of time, the property will create enormous wealth for you. And the best part in this 'wealth creation process' is that, you do not have to come out with anymore fresh capital, your tenant is actually paying for you. Don't you think this is better than the risk-free savings plan?
Prospective buyer	*Yes, but you also admitted earlier that there is some risks involved. How do I know that the property prices or the rent won't fall?*
Agent	Yes, you are right sir. Risk is an important aspect of investment. In every investment, there are bound to be calculated risks, and

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	nobody can guarantee you that you won't be the unlucky one that gets hit by bad timing or bad luck. The best way to protect against yourself from 'risks' is to buy the property during market lull (which happens every three to five years), or a recession (which happens every ten to twelve years). This is because we won't know when the market will hit the bottom, neither will we know when the market will hit the peak; so the best guide is to sell during bull-run and buy during a recession.
Prospective buyer	*But nowadays, investors are shifting money to the safety of guaranteed bank deposit, do you think that a leveraged investment in property is still valid today?*
Agent	Why not sir? The shift in investor's emphasis today will not change the fundamental of real estate investment as the best vehicle to create and preserve wealth for generations. I assure you that once the economic activities come back, the money that you have prudently put into a property will produce more value per dollar than any bank deposit.

Part Two: "Freehold properties are better investments than leasehold properties"

Prospective buyer	*I will never buy a 99-year leasehold property. A freehold condo is always a better investment*
Agent	[Referring to the working of investment yield of Bullion Park condo and Orchid Park condo] Sir, if you are referring to landed properties, I would totally agree with you because you can hand down the land to the next generation; and the freehold land will continue to create wealth for generations. But the same cannot be said for investment in condominiums. Can you imagine yourself living in a 50-year old condo, with all the outdated fixtures?
Prospective buyer	*But, when I want to sell it later on, the freehold status will attract higher price.*
Agent	That is not true, sir. During the market bull-run in 2006/07 period, a leasehold project called Grangeford Apartment was sold en bloc for $800 million while its neighbour, a freehold project called Horizon Towers were only sold for $500 million. Likewise, Scotts Square in Scotts Road, which is a freehold project, have done relatively poorer in sales than Orchard Residences in Orchard Road, which is a leasehold project. Mr Buyer sir, at the end of the day, when it comes to investment in condo, freehold status counts for very little.
Prospective	*What if I live in the condo myself? Wouldn't a freehold condo provide*

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buyer	*more assurance of easier sale, if I have to?*
Agent	I have just said that nobody will want to live in a 50-year old condo, if they have a choice. As such, a 50-year old freehold condo won't be easier to sell than a 5-year old leasehold property if the freehold condo is in a lousy location; and the leasehold property is in the best location. Whether a property is easy to sell or not depends on many attributes, chiefly of which its location – which determines the rental value (also called investment value). Freehold status, as I have said many times, counts for very little. Likewise, tenants will not rent a very old apartment if they have the choice. And because the value of any real estate comes from the rents it collects, at the end of the day, whether a condo project sells well or not depends on the investment yield it can offer investors. May I show you a comparative study I have just done on two nearby condos to ascertain their investment value?
Prospective buyer	*Okay, interest me.*
Agent	[Referring to the comparative study of the Freehold Bullion Park and leasehold Orchid Park condos]. As you can see clearly in the comparison of the two condos, the net yield of the three sample units at the Freehold Bullion Park condo is between 3.72% and 4.34% respectively. They are a shade lower than the net yield of between 3.97% and 4.5% produced by the three sample units at the nearby 99-leasehold Orchid Park condo. But if the owners of Units J and K in the case study have leveraged their investments on a mortgage, they will be experiencing negative returns on, which means that they have to fork out cash every month to repay their mortgagees.
Prospective buyer	*Why is the freehold condo unable to attract a higher rent?*
Agent	While the landlords believe that their freehold units in Bullion Park are worth a 'premium' (e.g. units in Bullion Park cost $120 to $150 psf more than comparable units in Orchid Park), the tenants do not believe the project is worth a 'rental premium'. This is because on practical terms, the tenants of both the two nearby condos use the same MRT station, travel the same bus route, and/or pay quite similar taxi fares everyday. Why should the tenants pay higher rents?
Prospective buyer	*So, what is the moral of the story?*

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Agent Oh, I appreciate the 'point blank' question. Let me answer it 'point blank' as well. Freehold status alone does not bring better investment value, as can be seen from the above comparison between Bullion Park and Orchid Park condominiums.

The additional premium of $120 to $150 psf the Bullion Park owners paid for the freehold status of the project did not bring them any additional financial incentives.

Both the condos are attracting median rents within the same narrow range of $2.20 to $2.50 psf per month. In other words, by holding a more expensive unit with no added financial incentives (such as higher rents), the owners of any freehold properties are actually 'under-utilising' their own resources (i.e. money), and at the same time, exposing themselves to unnecessary risks.

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