



Singapore Auction Property Highlights 1H 2009/ 2009

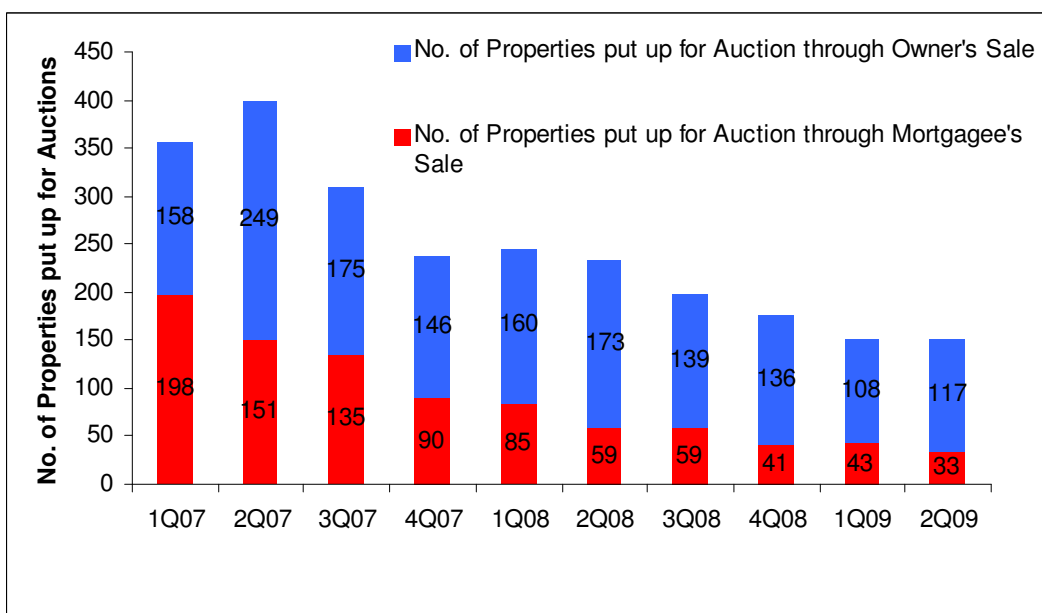
Executive Summary: A total of 301 properties were put up for auction in 1H 2009, reflecting a 20% decrease compared to 2H 2008. However, of cheer, the success rate, which is determined by the number of properties sold during auctions among the properties put up for auctions, increased. It recovered from 8% in 2H 2008 to 12% in 1H 2009. On a quarterly basis, it increased from 8% in 1Q 2009 to 16% in 2Q 2009.

Fewer Properties Put Up for Auction

301 properties were put up for auctions in 1H 2009, reflecting a 20% decline compared to 375 units in 2H 2008. However, on a quarterly basis, there was similar number, of about 150 properties, put up for sale in each of 1Q and 2Q 2009. This reflects a stabilization in economic conditions, where there were no rampant cases of owners who were cash strapped and have to send their properties for auctions.

As such, the share of properties put up for auction through owner sale still account for the majority of the overall number of properties put up for auction. Auctions continue to be an attractive venue for some owners who wish to understand about the interest for their properties, and possible selling prices. This is also useful as property transactions in the secondary market have been fewer since 2008, and auctions can provide owners with actual immediate reflections of open market prices. Together with banks who are avoiding the need to foreclose and working with distressed owners to send properties for auctions as owner sale, the share of properties put up for auction through owner sale still account for about three-quarter of overall number of properties put up for auction.

Figure 1: Number of Properties Put Up Under Owners and Mortgagee's Sale Since 1Q 2007



Source: Knight Frank Auction, Knight Frank Research



Residential Properties Remained the Majority of Properties Put Up for Auction

Residential properties continued to make up the largest group of properties put up for auction. There were a total of 166 residential properties put up for auction in 1H 2009, 18% fewer than that in 2H 2008 and 27% fewer than that in 1H 2008. However, it still accounted for a 55% share in 1H 2009, similar to 54% in 2H 2008.

The drop in the number of residential properties sent for auction is in line with a slowdown in secondary market transactions for private residential properties. The recent buzz in the private residential market was more in the form of developer sales, where buyers have been waiting long for quality new projects to be launched at attractive prices after a long lull in 2008. As prices have somehow corrected downwards, owners who are not financially strapped are in no hurry to sell, given there seems to be a number of potential homebuyers on the lookout for attractive buys.

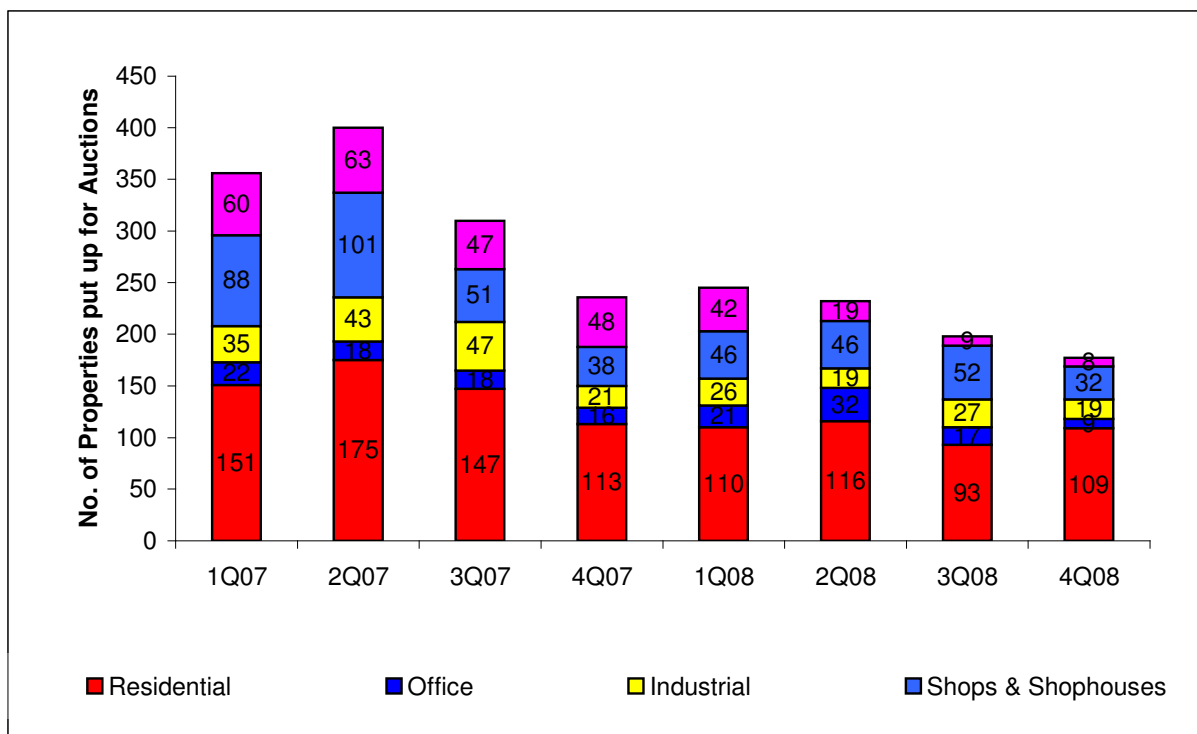
Moreover, while there may be a number who have bought by Deferred Payment Scheme in 2005-2007, and 2009 is the year where we will see the largest number of homes which have attained TOP and owners have to start financing their purchases, it is not necessarily that we will see rapid cases of owners who have to dispose their properties in the sub-sale market in 2009. This is because most of these owners whose homes complete in 2009 have bought in 2005 and 2006, before private residential prices steeply escalated. As such, they have not committed at high prices where financing is now a major difficulty. It will still make financial sense for owners to hold it for investments, till prices head for a definite recovery in the longer run. Given further, newer homes can usually command some rental premium.

The number of office properties put up for auctions increased in 2008, but it decreased to 19 properties in 1H 2009. This was partly due to a continued weakening in prices of office properties, driven by lackluster business performance and cautious business sentiments. However, a lack of office properties sent for auction can also somehow reflect that there were no rapid cases of business closures, as most businesses managed to stay afloat after some massive rounds of consolidations. Although shadow office space has increased in 1H 2009, there are no major cases of strata office units made available due to business closures.

However, the share of shops and shophouses put up for auctions in 1H 2009 maintained at 21%, similar to 22% in 2H 2008. This half-yearly percentage has been ranging from 16% to 25% since 2007, reflecting that the share of shops and shophouses put up for auctions in 1H 2009 is considerably high. This could be due to both a continued contraction in retail sales and consumer sentiments, as well as the usefulness of auctions as a price determination mechanism for owners of such unique properties. As the offers for shop and shophouses tend to be more distinct depending on how potential buyers value the uniqueness of each shop/shophouse, auctions can be a good avenue for owners to expose their shops to more interested buyers within a shorter time frame, and receive multiple distinct offers.

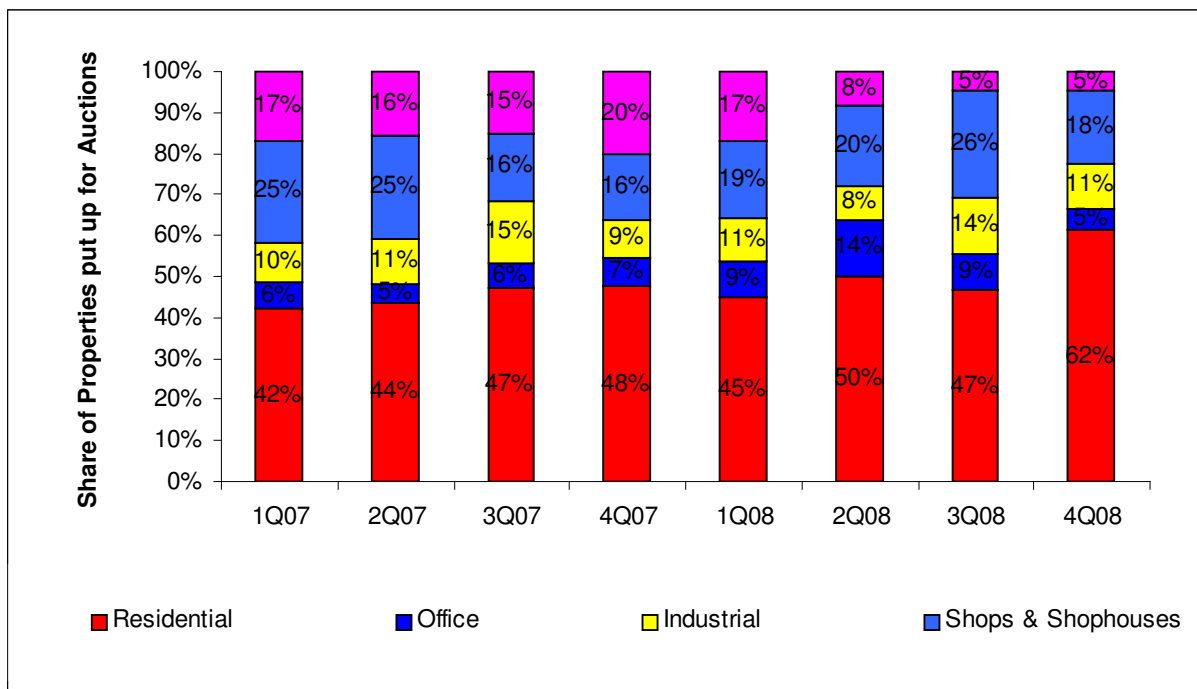


Figure 2: No. of Properties Put Up for Auction by Property Types



Source: Knight Frank Auction, Knight Frank Research

Figure 3: Share of Properties Put Up for Auction (By Property Types)



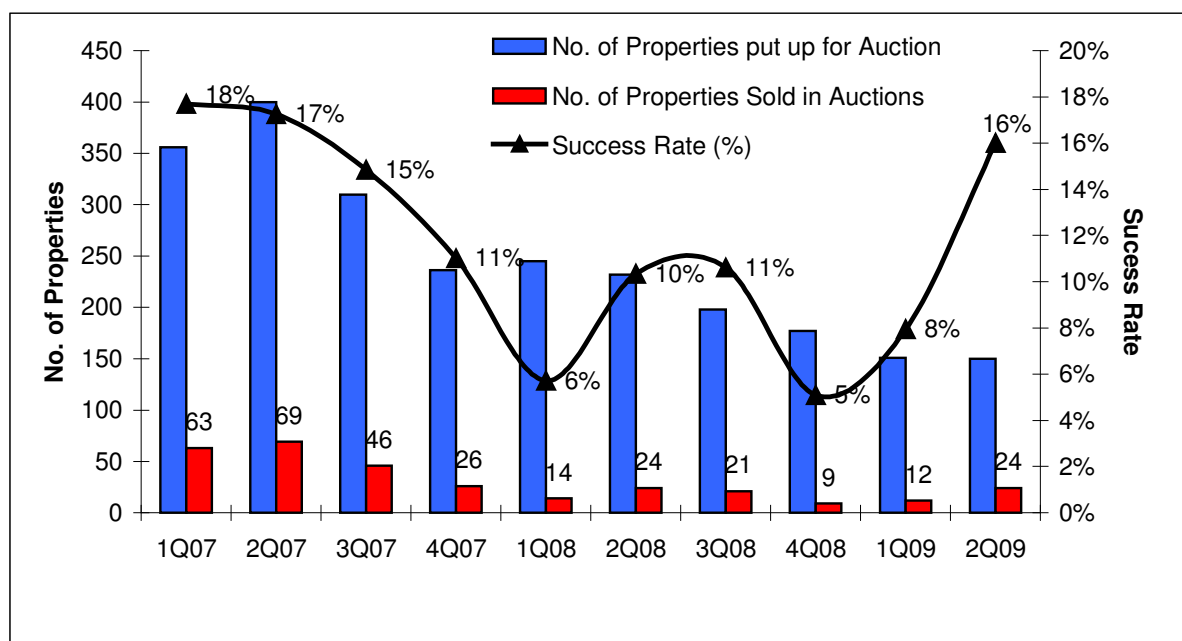
Source: Knight Frank Auction, Knight Frank Research



Success Rate

On a brighter note, while the number of properties put up for auctions dropped in 1H 2009, the number of properties sold in auctions increased compared to 2H 2008. The number of properties sold in auctions held in 1H 2009 increased, from 30 properties in 2H 2008 to 36 properties in 1H 2009. The success rate, determined by the number of properties sold versus the number of properties sent for auctions, thus increased from dropped from 8% in 2H 2008 to 12% in 1H 2009. On a quarterly basis, it increased from 8% in 1Q 2009 to 16% in 2Q 2009.

Fig. 4: Success Rate – No. of Properties Sold vs No. of Properties Put Up for Auctions



Source: Knight Frank Auction, Knight Frank Research

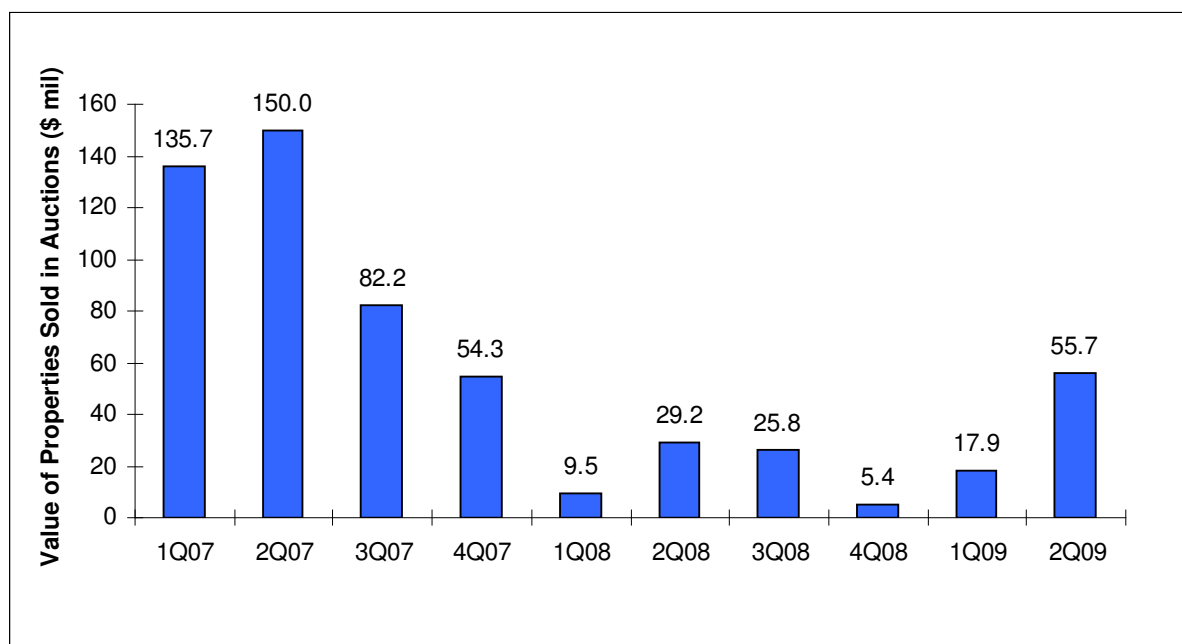


Pick Up in Total Value of Properties Sold During Auctions as Properties are Suitably Re-priced

In line with a better success rate, the total value of properties sold increased in 1H 2009. It more than doubled the S\$31.2 million in 2H 2008, to S\$73.7 million in 1H 2009. At S\$73.7 million, this already exceeded the S\$69.8 million worth properties sold for the whole of 2008. This was partly because property prices have seen more downward adjustments in 1H 2009 and can better match the expectations of some potential buyers who are on the lookout for opportunistic purchases. Additionally, the recent pickup in homebuying sentiments also provided support for some who are on the lookout for value buys but have been left out in developer sales as projects are selling fast, leaving homebuyers with limited choices. This can be further evidenced by a significant increase in the value of auctioned properties sold in 2Q 2009, compared to 1Q 2009 – value of auctioned properties sold in 2Q 2009 (S\$55.7 million) was about three times that of 1Q 2008 (S\$17.9 million). This was in tandem to a surge of developer home sales in April and May.

Out of this S\$73.7 million sold through auctions in 1H 2009, a third, or 34%, were sold through mortgagee's sale. This was significantly down from a 54% share in 2H 2008. This could be partly because in 2008, the prices of most properties put up for auctions have not been suitably re-priced to meet buyers' expectations, except a handful of properties put up for sale through mortgagee sales have been and these are thus attractive to buyers. However in 1H 2009, as the price adjustment is quite uniform across property types and type of sale, the share of mortgagee properties sold in auctions dropped. In addition, this was due to fewer properties put up in auctions through mortgagee sales, as banks minimize the need to foreclose.

Figure 5: Total Value of Properties Sold



Source: Knight Frank Auction, Knight Frank Research



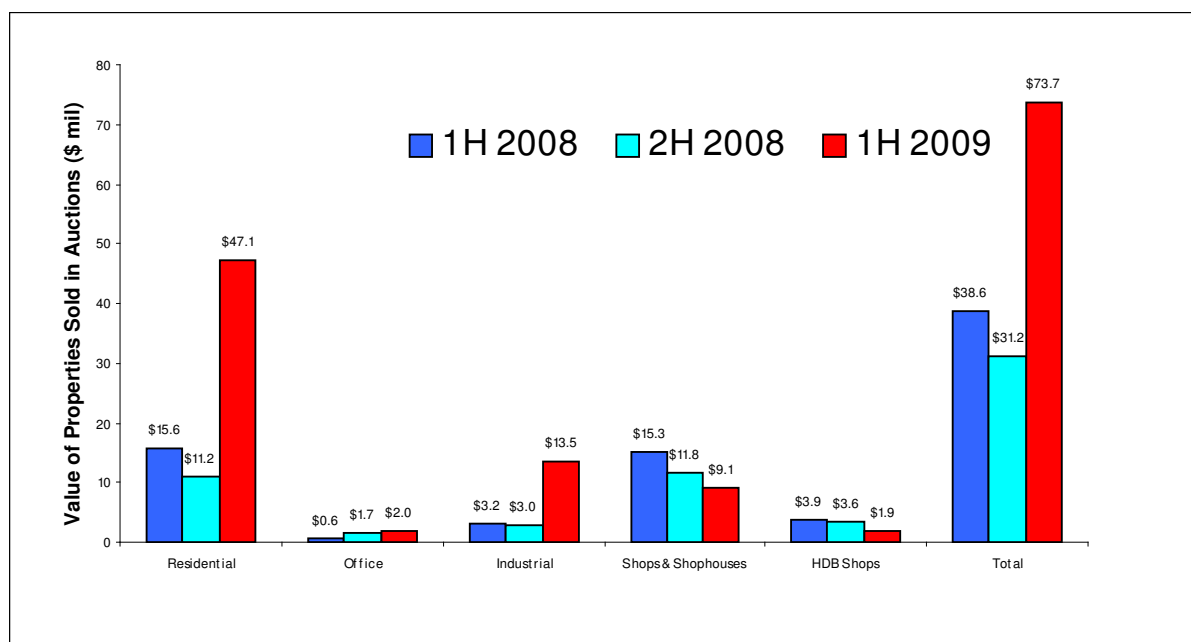
Encouraging Increase in Value of Residential Properties Sold in Auctions

The residential sector staged a marked increase in terms of value of residential properties sold in auctions in 1H 2009. After falling to a mere S\$11.2 million in 2H 2008, the value of residential properties sold during auctions chalked up a total of S\$47.1 million in 1H 2009. This far exceeded the S\$26.8 million worth of residential properties sold in auctions in 2008.

The value of industrial properties sold in auctions also increased from S\$3.0 million in 2H 2008, to S\$13.5 million in 1H 2009. This was partly because prices of industrial properties have seen a notable correction only since end 2Q 2008. Unlike the other property sectors which were more affected, rents and prices of industrial properties staged encouraging modest increase in 2008, especially in the first three quarters of 2008.

On the other hand, the value of shops and shophouses sold in auctions continued to decline in 1H 2009. It dropped from S\$11.8 million in 2H 2008, to S\$9.1 million in 1H 2009, reflecting subdued buying interest for such properties. Although the number of such properties put up for sale had increased, these properties have yet to receive overwhelming interest in the auction market. This could be due to the continued contraction in consumer sentiments, which impact retailers' sales revenue. Potential buyers of shops and shophouses, especially those who may be buying for their own business operations instead of for investments, are therefore carefully evaluating before making a purchase, although some of these buyers do have a penchant for selected shop and shophouses with exclusive physical features and design.

Figure 6: Total Value of Properties Sold (by Property Types)





Outlook

The auction property market has staged an encouraging recovery in sales activity in 1H 2009, largely fuelled by the renewed interest for residential properties, which were finally re-priced downwards in 2009. For the rest of 2009, the auction property market is expected to continue the sales momentum, or even benefit if the homebuying interest can persist. In other words, there may be more homebuyers who may be interested in secondary homes, if prices of newly launched homes resist further downward corrections and choices remain limited. The auction market will also be a good channel for some homeowners who bought in early 2007 at high prices and need to dispose their properties when TOP arrives. Owners may be encouraged to put their properties up for auction as there is a general change in mindset of auctions from distressed assets, to a useful platform for determining the best possible selling price. Meanwhile, as these properties are new, they can be well received in the auction market. It is also clear there are numerous potential homebuyers persistently on the lookout for an opportune time to buy. This interest is likely to spread to auctions, which offer an array for properties for bidding. The number of residential properties put up for sale should therefore continue to increase.

The number of properties put up for auction by mortgagees is expected to slightly increase. This is partly because of the severe economic conditions in 1Q 2009, which impacted a number of property owners. Most of these owners should continue to hold when first hit by the economic crisis, and consistently on the lookout for opportunities of revival. However, for those who continue to be affected by the economic situation and are unable to reverse the situation even if some opportunities like the stock market rally and improved job market prospects abound, their properties may have to be foreclosed. Additionally, as foreclosure will usually be effected after some defaults, this explains why there is a lag between the worst economic conditions and foreclosures. However, as banks today are generally reluctant to foreclose properties and preferring owners to put up their properties in auction to achieve the best selling price, the number of properties auctioned by mortgagees is not expected to show a significant increase.

The number of non-residential properties put up for auction in 2H 2009 is expected to increase, compared to 1H 2009. This is expected as business performance for both companies and shops are unlikely to stage an immediate recovery even if economic stability is in place. Businesses are generally operating under tight budget constraints and retailers are generally seeing consumers continue practicing discretionary spending. Hence there may be some owners who saw prolonged poor business performance and have to put their properties up for auction. However, unless consumer sentiments and business performance shows encouraging signs of recovery, it is very unlikely a large number of these properties which were put up for sale can attract strong buying interest from buyers who will use these properties for their business operations. These properties can perhaps attract more buying interest from investors, who are on the lookout for special value buys.

Nonetheless, as the supply of some of these properties, such as shops and shophouses remain limited, there should be some potential buyers who are willing to pay some premium for unique design. These



buyers will be very interested as such unique value can only be actualised through owning, and sellers may engage in auctions to meet more potential buyers who will offer irresistible prices, indicating intrinsic values.

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Notes to Editors

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