MARKET OVERVIEW

1.0 MACRO-ECONOMIC OVERVIEW

1.1 GDP Growth and Retail Sales

Following the stronger economic expansion in 2013, growth in H1 2014 was moderate
According to the Ministry of Trade and Industry ("MTI"), Singapore's real Gross Domestic Product ("GDP") grew by 3.9% in 2013, higher than the 2.5% in 2012, supported mainly by finance & insurance and wholesale & retail trade. Real GDP growth moderated in H1 2014, decelerating from 6.9% in Q4 2013 to 1.8% in Q1 2014 and 0.1% in Q2 2014 on a q-o-q seasonally adjusted annualised rate.

Retail sales growth has been moderating
Private Consumption Expenditure ("PCE"), a reflection of consumer confidence and household retail spending, has been growing at a slower pace since 2010. This is despite the growth in wages and personal disposable income (5% in 2013, higher than the annual average over the past decade of 4.3%).

The Household Expenditure Survey 2012/13 by the Department of Statistics Singapore ("DOS") also found that annual growth in average household expenditure between 2007/08 and 2012/13 (4.4% per annum) has not matched up to that for average household income (5.3% per annum).

With more affordable international travel and e-retailing, more residents are spending abroad. This is reflected in private consumption patterns, where 16% of PCE (including non-residents' expenditure) is accounted by residents' expenditure abroad in 2013, compared with 14% in 2007.

Excluding motor vehicles, real retail sales grew by 1.1% in 2013 and continued to increase by 0.8% y-o-y in Q1 2014. However, it contracted by 2.0% y-o-y in Q2 2014.

1.2 Tourism

The tourism sector expanded in 2013, though its performance moderated in H1 2014
According to the Singapore Tourism Board ("STB"), Orchard/Scotts Road is the most popular shopping destination for tourists and has consistently been the most visited free-access attraction[1] in Singapore. As such, the Singapore retail market is significantly driven by the performance of the tourism sector.

After achieving the upper limit of the STB's international visitor arrival target for 2012 (14.5 million), Singapore attracted 15.6 million visitors in 2013, exceeding its projection of 14.8 million to 15.5 million. Notwithstanding, growth in the tourism sector has been moderating, amid the strengthening SGD and inflation.

Visitor arrivals in Singapore amounted to 8.9 million for the period of January to July 2014, a 2.5% y-o-y decline, largely due to a decline in the number of visitors from mainland China. To address this, the government has partnered the private sector to launch a $1 million[2] campaign to attract more mainland Chinese.

(1) According to the STB's Overseas Visitors Survey in 2012, which covers a sample of about 26,000 visitors departing Singapore, 43% of the respondents visited Orchard Road, the highest compared with other free-access attractions e.g., Chinatown and Little India.
(2) All currencies in this report are in SGD.

visitors. On the other hand, tourism receipts continued to grow by 1.8% ($23.5 billion) in 2013. Q1 2014 saw tourism receipts growing by 5% y-o-y to $6 billion.

1.3 Outlook

Singapore's economy is expected to perform modestly in 2014, though conditions are likely to improve in 2015
Global economic recovery is expected to pick up in 2014, underpinned by more optimistic economic growth expectations in the US and a reduced pace of fiscal consolidation in the Eurozone. However, some uncertainties in the US and China as well as Singapore's labour constraints may pose some risks to recovery. The government expects Singapore's real GDP growth forecast for 2014 to be between 2.5% and 3.5% (Table 1.1). Going into 2015, Oxford Economics ("OE") expects economic conditions to improve, with real GDP growing by 3.9%.

Table 1.1: Key Macro-economic Forecasts

Indicator	2013	2014 F	2015 F
Real GDP Growth	3.9%	2.5% to 3.5% (MTI)	3.9% (OE)
Inflation	2.4%	1.5% to 2.5% (MAS)	2.8% (OE)
Population Growth	1.6%	1.4% (OE)	1.3% (OE)
International Visitor Arrivals (STB)	15.6 million	16.3 to 16.8 million (8.9 million in Jan-Jul 2014 - actual)	17 million (STB Tourism 2015 target)
Tourism Receipts (STB)	23.5 billion	$23.8 to $24.6 billion ($6 billion in Q1 2014 - actual)	$30 billion (STB Tourism 2015 target)

Source: MTI, DOS, MAS, Oxford Economics, DTZ Consulting & Research, August 2014

Slower tourism and retail sales growth in 2014, though conditions are likely to pick up in 2015
Consumer confidence and retail sales in Singapore are expected to be lukewarm in 2014 due to the overall market uncertainties. Notwithstanding, this situation is likely to improve in 2015 as the economy restructures towards more value-added growth.

In 2011, the STB announced its target to achieve $30 billion of tourism receipts and 17 million visitor arrivals by 2015. Meanwhile, it targets to attract 16.3 to 16.8 million visitors and achieve $23.8 to $24.6 billion of tourism receipts in 2014. In view of the changing tourism landscape, the government is restructuring the tourism sector to focus on increasing yield though visitor spend, rather than visitor arrivals.

This drive towards more quality and value-added tourism programming is expected to benefit the retail market, especially in Orchard/Scotts Road.

2.0 PRIVATE RETAIL PROPERTY MARKET[3]

2.1 Retail Trends

Key consumer and retailer trends have a generally positive impact on Singapore
Rise of Asian consumerism – Asia's growing prosperity amid a rising middle class[4] in major Asian economies i.e., mainland China and India has fuelled the rise of Asian consumerism. Supported by strong expansion of the low-cost carrier industry and ASEAN Economic Community 2015, Singapore's consumer-facing industries e.g., retail and healthcare services will benefit from the rise of Asian consumerism.

Greater use of technology – Consumers are increasingly seeking convenience, "express" products and services as they find themselves time-starved. With the proliferation of e-commerce and social media, Singapore, with its readily available IT and physical infrastructure, has an edge in attracting consumers.

More households are dining out – According to the DOS Household Expenditure Survey 2012/13, expenditure patterns among households reflect lifestyles changes and consumption of higher quality products and services.

More households were noted to be dining out, with food serving services accounting for 64% of the expenditure on food in 2012/13, up from 62% in 2007/08. Notably, the share of spending in restaurants increased from 27% to 35% over the same period.

Growing presence of international retailers – Despite intensifying competition among retailers locally and regionally, Singapore continues to attract international retailers.

Premier malls in Orchard/Scotts Road remain in vogue – Premier luxury malls in Orchard/ Scotts Road such as Paragon are top choices for international retailers. For instance, Paragon has attracted many exclusive and new-to-market brands such as:

- Spanish label Adolfo Dominguez (ADZ.MC), with its first Singapore flagship store at Paragon;

(3) This report focuses on retail space held by the private sector. According to the URA, the private sector refers to individuals, organisations or companies registered with the Accounting and Corporate Regulatory Authority. It includes clan associations and other organisations registered under the Societies Act, Charities Act, Cooperative Societies Act, etc.
(4) According to the Organisation for Economic Co-operation and Development ("OECD") in 2010, Asia is expected to account for two-thirds of the world's middle class by 2030, a significant increase from the 28% estimated in 2010. A global middle class is defined by OECD as those living in households with daily per capita incomes from USD10 to USD100 (SGD12 to SGD124) per day in purchasing power parity terms.

- Blackbarrett – menswear designer Neil Barrett's second store in Asia outside Japan;
- Caramel Baby & Child, a luxury childrenswear and homewares brand well known in London;
- American luxury handbag brand Judith Leiber, with its first standalone boutique at Paragon.

Non-shop[5] retail trades such as F&B are growing in importance – In line with the lifestyle changes, non-shop retail trades such as F&B, entertainment and health & fitness have become a critical component for retail, comprising about 30% to 51% of retail space, based on the URA's Q2 2014 statistics.

2.2 Existing Supply[6]

Islandwide retail stock was 45.4 million sq ft as at Q2 2014
Total private retail stock in Singapore rose by 3.0% y-o-y (1.3 million sq ft) in 2013. There were limited completions in Orchard/Scotts Road in 2013 and supply was led by the suburban areas e.g., JEM (584,000 sq ft) and Westgate (410,000 sq ft) in the Jurong Lake District.

H1 2014 saw the completion of orchardgateway (167,000 sq ft) at Orchard/Scotts Road. This brought private retail stock up to 45.4 million sq ft in Q2 2014. Majority of the stock was in the suburban areas (22.4 million sq ft; 49%), while Orchard/Scotts Road accounted for about 17% (7.5 million sq ft). The remaining 34% (15.5 million sq ft) was in the other city areas.

Retail developments continue to rejuvenate
Completions in Orchard/Scotts Road and other city areas since 2013 were smaller in scale and mainly from redevelopment/refurbishment projects e.g., orchardgateway, The Heeren and Suntec City Mall.

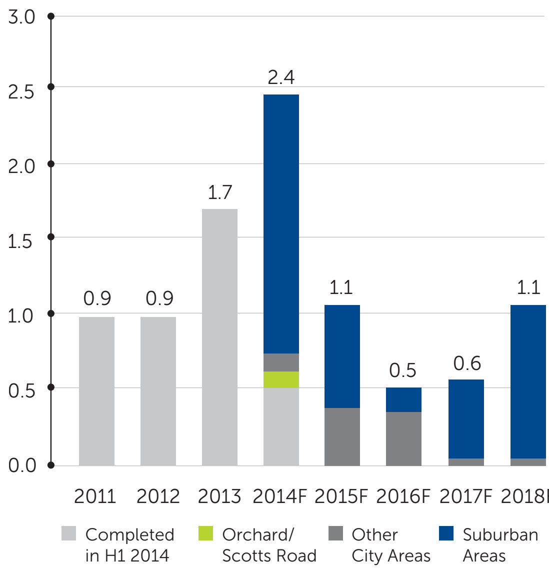
2.3 Potential Supply

Ample pipeline supply, especially in 2014
There is an ample new supply of private retail space completing from Q3 2014 to 2018 (5.2 million sq ft), which is about 12% of islandwide stock in Q2 2014.

Some 36% (1.9 million sq ft) of the pipeline supply is completing in H2 2014. Including the completions in H1 2014, some 2.4 million sq ft of retail space will complete in year 2014, higher than the 1.1 million sq ft[7] annual average over the past decade.

Majority of the pipeline supply from Q3 2014 to 2018 is in the suburban areas, while potential supply in Orchard/Scotts Road is very limited
Of the pipeline supply from Q3 2014 to 2018, about 75% (4.1 million sq ft) is accounted by the suburban areas and 20% (1.1 million sq ft) by the other city areas (Figure 2.1).

Figure 2.1: Retail New Supply (2011 to 2018)



Source: URA, DTZ Consulting & Research, August 2014

Meanwhile, there is very limited potential supply in Orchard/Scotts Road (0.2 million sq ft; 4%), with most of this concentrated in H2 2014 i.e., 268 Orchard Road (122,000 sq ft) and refurbishment of Shaw Centre (110,000 sq ft[8]).

Pipeline supply in the suburban areas are mainly in growth areas
Potential supply in the suburban areas is mainly in regional/sub-regional centres earmarked by the government e.g., Big Box at Jurong Lake District and OneKM at Paya Lebar Central. Notably, Big Box is the largest project in the pipeline supply for the suburban areas. It is developed under the Economic Development Board's Warehouse Retail Scheme introduced in 2004, which allows industrial land to be used for retail and warehousing.

There are also many new mid-sized shopping malls (150,000 to 200,000 sq ft) opening at relatively under-served residential catchments e.g., The Seletar Mall (188,000 sq ft) in Sengkang.

(5) Retail property statistics from the URA from 2004 to 2011 are based on shop space, which is defined as space used or intended to be used for any trade where the primary purpose is the sale of goods by retail, for example, provision shop, take-away food shop, departmental store. Space used for the provision of services, such as tailoring, barber/beauty salon, photographic and medical services are also included.
With effect from Q1 2014, the URA's coverage of the retail property market was expanded to include non-shop retail uses i.e., F&B, entertainment and health & fitness and will be referenced as retail space. This is only applicable for figures from 2012 onwards.
(6) Retail supply, demand and occupancy figures in this report are based on URA's statistics.

(7) DTZ's estimate.
(8) Of the 110,000 sq ft, 14,000 sq ft of Shaw Centre's refurbished space was completed in Q2 2014.

Meanwhile, there is limited retail supply in Clementi Planning Area. There is only one pipeline project in Clementi, namely WE Cinemas, a six-storey entertainment complex, featuring 10 digital cinema halls, with supporting retail and is positioned differently from the likes of The Clementi Mall.

2.4 Demand and Occupancy

Robust demand in 2013, driven by the completion of fully- or almost-fully committed suburban malls
Demand for private retail space reached a high of 1.6 million sq ft in 2013 since 2010, resulting from the opening of large suburban shopping malls e.g., Jem and Bedok Mall opened at full occupancy in June 2013 and December 2013 respectively, while Westgate opened at 90% occupancy in December 2013.

Moderated retail sales and lower visitor arrivals had some impact on demand in H1 2014
Islandwide retail space demand came under some pressure in H1 2014, contracting by 323,000 sq ft on the back of some retailers vacating their spaces e.g., Franc Franc's closure of its outlets in Singapore and PARCO vacating its space at Millena Walk.

Following the increase in 2013, islandwide occupancy fell in H1 2014
With net absorption[9] (1.6 million sq ft) surpassing net supply[10] (1.3 million sq ft) in 2013, islandwide retail occupancy rose from 94.1% in 2012 to 95.0% in 2013. However, the curtailed demand alongside the increased supply saw islandwide occupancy declining from 95.0% in Q4 2013 to 93.4% in Q2 2014.

Take-up in Orchard/Scotts Road was healthy in 2013, with occupancy rising to a high of 95.6%
Orchard/Scotts Road remains an attractive venue for international retailers, with various new-to-market brands continuing to launch their stores in the area e.g., South Korean shoemaker Spur and Hong Kong fashion retailer i.t.

Occupancy in Orchard/Scotts Road rose by 0.8% points from 94.8% in 2012 to 95.6% in 2013, partly driven by Robinson's taking up about 186,000 sq ft at The Heeren, increasing from the 130,000 sq ft it previously occupied at The Centrepoint.

Occupancy in Orchard/Scotts Road saw some respite in Q2 2014, while that for the suburban areas remained resilient
Occupancy in Orchard/Scotts Road fell to 92.3% in Q1 2014, though this was partly attributed to the fit-out period by tenants who were preparing to move into orchardgateway.

On a positive note, net absorption in Orchard/Scotts Road improved and occupancy rose to 92.7% in Q2 2014, with the opening of orchardgateway's main wing, which was almost fully committed. Meanwhile, occupancy in the suburban areas was relatively stable at 93.9% in Q2 2014, reflecting the strong position of suburban malls with strong catchments.

2.5 Rents

Rents in Orchard/Scotts Road and the suburban areas are resilient
Weaker retail sales growth, consumer sentiments and tighter labour market conditions since 2013, have generally made tenants more resistant to rent increases.

Nonetheless, average fixed gross retail rents in Orchard/Scotts Road and the suburban areas were resilient, falling marginally by 0.2% and 0.1% in 2013 respectively, as retailers' interest in these areas remain strong e.g., Orchard/Scotts Road being the most established retail, leisure and entertainment belt and the suburban areas being earmarked for many new key commercial hubs.

Retail rents for the other city areas declined by 0.8% in 2013. Recent retail additions/changes to the areas and rejuvenation plans have been less impactful in the other city areas (e.g., retail podiums of office buildings), amid the increased competition.

Rents held up in H1 2014
According to DTZ, average prime fixed-gross rents[11] across all segments held up in H1 2014, though leasing deals took longer to complete due to differing expectations between retailers and landlords. As at Q2 2014, average prime first-storey fixed gross rents in Orchard/Scotts Road were $40.05 per sq ft per month, while those in the suburban areas were $33.70 per sq ft per month, remaining unchanged since 2013.

2.6 Outlook

Retail rents are expected to hold up
Singapore remains well-positioned as a global-Asia hub to capitalise on the strong expansion of consumerism in Asia Pacific. Many international retailers in the F&B and lifestyle segments are expected to continue to be attracted to set up store in Singapore.

(9) Demand is reflected by net absorption, the change in the total occupied or let floor space over a specified period of time, either positive or negative.
(10) Net supply is new supply less retail space that is undergoing refurbishment and/or redevelopment.

(11) Refers to the rents of prime specialty retail shops, for example those with good frontage or pedestrian footage, are used to compute average gross rents. They exclude turnover rents.

Retail rentals in Singapore, especially in Orchard/Scotts Road and the suburban areas are generally expected to hold up for the rest of 2014, though overall prospects were impacted by declining tenant sales at some shopping malls. Retailers also continue to be cost-conscious as they grapple with the rising business costs, amid the labour crunch.

Going into 2015, retail rents are likely to improve, in view that the economy is expected to perform better as well as the pipeline supply in the year being more moderate.

2.7 Implications on Paragon

Given the limited pipeline supply, retail rents in Orchard/Scotts Road are likely to remain resilient, with potential upside in 2015

Retail rents in Orchard/Scotts Road are expected to stay firm from Q2 2014 to Q2 2015, with potential upside of up to 2%, amid the limited supply. Notably, Orchard/Scotts Road accounts for only about 4% of the total pipeline supply up till 2018. Well-managed premier shopping malls in the area like Paragon are likely to see a stronger upside for its rental prospects.

Retail developments in Orchard/Scotts Road completing in 2014 have achieved healthy pre-commitments e.g., the soon-to-be refurbished Shaw Centre has a pre-commitment rate of about 90%. Furthermore, the vacated premises by Robinsons at The Centrepoint have already been taken up by Metro, reflecting Orchard/Scotts Road's mainstay as the prime retail and tourist shopping destination in Singapore.

Orchard/Scotts Road, the most popular shopping and tourist precinct in Singapore, with a total of 7.5 million sq ft of retail space, is also supported by over 11,000 hotel rooms and serviced apartments in the vicinity and is well connected by underground pedestrian walkways and linkages between buildings.

Paragon, an established premier luxury shopping mall, is well-positioned to ride on the positive rental prospects in Orchard/Scotts Road.

2.8 Implications on The Clementi Mall

Retail rents in the suburban areas are expected to stay firm

While majority of the pipeline supply is located in the suburban areas, rents in the area are expected to stay firm for the rest of 2014, with some upside going into 2015.

Most suburban malls enjoy strong demand from both the local primary catchments and from retailers seeking to expand their presence into the suburban areas. In addition, many high-profile brands (e.g., Coach and Swedish high-end fashion brand Cos) have already established their presence in the suburban malls and are continuing to do so.

Most of the large-scale suburban malls completing in 2014 have achieved high pre-commitment rates (from 70% to fully committed), reflecting the strong retailer interest setting up a presence in the suburban areas.

Suburban retail spaces, which are in close proximity or integrated with transport nodes such as The Clementi Mall, are expected to remain at the forefront of the market. Such developments are also likely to experience stronger rental growth prospects.

The Clementi Mall, strategically located at the the heart of Clementi Planning Area[12], is expected to continue to outperform other malls in the area. It enjoys excellent transport connectivity due to its co-location with a bus interchange and connection to the Clementi MRT station. Apart from serving about 92,000 residents[13] in the Clementi Planning Area and about 169,000 residents in the neighbouring Bukit Timah and Queenstown Planning Areas, The Clementi Mall is also supported by more than 60,000 students from tertiary institutions in the area as well as the significant working population at one-north.

3.0 MEDICAL SUITE PROPERTY MARKET

3.1 Healthcare Services Industry Trends

Key industry trends have driven the demand for medical and healthcare services in Singapore

The rise of Asian consumerism has brought about a demand for quality healthcare services in the region. Healthcare spending in Asia Pacific is expected to grow from USD1.34 trillion in 2013 to USD2.2 trillion in 2018[14]. The "opening up" of several smaller countries/regions e.g., IndoChina and Mongolia has helped drive demand.

Regional competition for the medical tourism dollar, amid the strong growth potential in the region

Despite the growing healthcare services market in Asia, competition from other countries in the region e.g., Thailand, Malaysia and India has been intensifying, amid more affordable travel options and online connectivity.

(12) Based on the URA's planning boundaries.
(13) Based on the DOS Singapore's Population Census 2010.
(14) Source: Frost and Sullivan.

Regional competitors are mainly competing in terms of being able to offer more affordable healthcare services while Singapore's advantage is its position as a leading medical hub for high-quality medical treatments.

Singapore has a niche in offering high-quality and sophisticated medical surgical procedures and services, usually sought after by the more affluent target markets. Its appeal to this high-net worth target market is reinforced by its reputation as a politically stable and safe country.

Singapore has a solid base of international accreditation, with 21 Joint Commission International (JCI)[15] accredited organisations, versus 13 in Malaysia and 37 in Thailand, as at August 2014. Its cosmopolitan image also appeals to the global market.

Singapore's competitive advantage as a leading medical hub for high-quality medical treatments is reflected by the healthy growth of medical tourism receipts. According to the latest statistics from the STB, medical tourism receipts grew by 13% to $1.1 billion in 2012, similar to the growth in 2011.

3.2 Existing Supply

Over 1,500 medical suites in Singapore
DTZ estimates that there are over 1,500 medical suites in Singapore, as at August 2014, of which about 65% (982 units) are hospital-supported medical suites, while the remaining 35% (540 units) are standalone medical suites.

Limited standalone medical suites that are for lease only
Of the islandwide medical suite stock, about 25% (378 units) are standalone medical suites that are for lease only and are held by REITs, developers or major medical group practices such as Raffles Medical Group and Thomson Medical. This implies that the market for professionally managed and operated medical suites is limited.

Orchard Road/Tanglin accounts for a large proportion of standalone medical suites that are for lease only (219 units). They are generally well-managed as reflected by Paragon Medical (75 units) being renowned as a world-class specialist medical centre.

Orchard Road/Tanglin is Singapore's premier healthcare services and medical cluster
Some 46% of the medical suites in Singapore are located in Orchard Road/Tanglin, spread across more than 10 different facilities. Mount Elizabeth Medical Centre (Orchard) (232 units) and Gleneagles Medical Centre (164 units), which are owned by Parkway Pantai Ltd, are the two developments with the most medical suites and are integrated with hospital facilities.

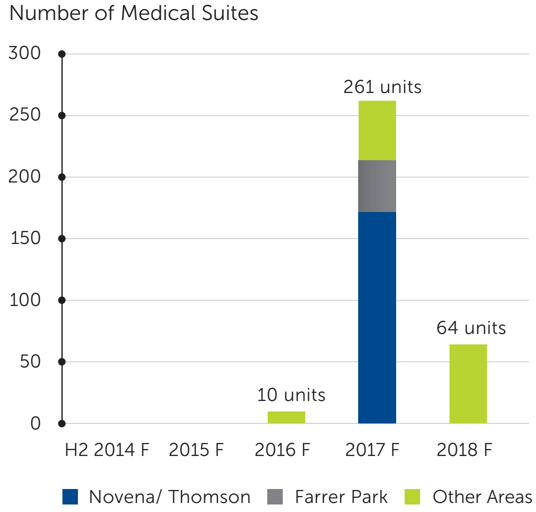
Mount Elizabeth Orchard and Gleneagles have established a strong brand positioning for medical and healthcare services globally and have been critical in uplifting Orchard Road/Tanglin's profile as a medical destination.

Paragon Medical, while not directly integrated with these hospitals, enjoys the closest proximity to Mount Elizabeth Orchard's 24-hour hospital. Other medical suites in the area are relatively further away from hospital facilities. Furthermore, Paragon Medical is supported by a comprehensive range of hotel and retail amenities.

3.3 Potential Supply

Estimated 335 medical suites in the pipeline till 2018
There is an estimated 335 medical suites expected to complete from H2 2014 to 2018. This pipeline supply forms about 22% of the existing stock in August 2014 and will mostly complete in 2017, reflecting limited medical suite supply from H2 2014 to 2016 (Figure 3.1).

Figure 3.1: Potential Supply



Source: DTZ Consulting & Research, August 2014

(15) JCI is an internationally recognised accreditation that looks at structures, processes and outcomes of health care organisations. Currently this accreditation programme covers 6 areas: ambulatory care, clinical laboratories, hospitals, medical transport organisations, care continuum and disease- or condition-specific care. Moving forward, it will expand into Primary care services.

No new supply expected in Orchard Road/Tanglin till 2018
There is no potential supply in the Orchard Road/Tanglin till 2018, furthering the scarcity of medical suites in the area.

Bulk of the potential supply will come from Royal Square in Novena/Thomson, a mixed-use commercial development with retail, medical suites and hotel components developed by a joint venture between Hoi Hup Realty and Sunway Developments.

All the medical suite pipeline projects till 2018 are part of mixed-use commercial developments e.g., office, medical suites and hotel uses and are mostly developed by real estate property developers, rather than medical group practices or practitioners.

The size of many of the medical suites for the upcoming projects e.g., Royal Square was significantly smaller (420 sq ft to 786 sq ft), compared to the average size of units at existing medical centres in Orchard Road/Tanglin (600 sq ft to 1,200 sq ft). This was done to appeal to investors, as smaller units are more affordable on a quantum basis.

These smaller medical suites may not be suitable for some medical practices e.g., specialities involving day surgery as these activities require more supporting facilities. In addition, some of these upcoming medical suites, especially those in the city centre do not enjoy proximity to established private hospitals and lack the strong branding observed in Orchard Road/Tanglin. They may also not be as professionally managed as they are owned by individual owners.

3.4 Demand and Occupancy

Demand for medical suites has sustained relatively well
Driven by healthy growth in its medical tourism sector (in terms of foreign patients and medical tourism receipts), rising number of medical practitioners and strong support from the government, the demand for medical suites has sustained relatively well over the recent years. Nonetheless, the demand dynamics by location varies considerably, with stronger demand for medical suites in established areas, namely Orchard Road/Tanglin, followed by Novena/Thomson.

Strong demand for hospital-supported and well-positioned medical suites, particularly those at Orchard Road/Tanglin
Amid the limited medical suite supply in Orchard Road/Tanglin as well as the area's hospitals and medical centres having developed internationally recognised standards and specialties, occupancy for medical suites in Orchard Road/Tanglin are strong.

Many healthcare services professionals are keen to occupy medical suites which are directly supported by hospitals, especially those which are well-recognised. For example, Mount Elizabeth Medical Centre Orchard is estimated to be near full occupancy. In particular, Paragon Medical, which is immediately adjacent to Mount Elizabeth Hospital Orchard and Mount Elizabeth Medical Centre Orchard, has maintained full occupancy over the past decade.

3.5 Rents

Medical suite rents have grown at a steady pace over the past decade, particularly for Orchard Road/Tanglin
On the back of the sustained demand and limited supply for medical suites, average gross rents for medical suites have risen at a steady pace over the past decade. The growth in rents was the most significant for medical suites which were integrated as part of hospitals. In addition, the growth in rents is most significant in Orchard Road/Tanglin.

For instance, asking monthly rents for medical suites at Mount Elizabeth Medical Centre Orchard are estimated to have, at least doubled from about $8 per sq ft in 2003 to $16 – $27 per sq ft in 2013, translating to average annual growth rate of about 9% to 15%. Rents at Paragon Medical are estimated to have grown from about $7 – $7.50 per sq ft in 2005 to about $11 – $14 in 2013, which translates to a 7% to 11% average annual growth over the period. Meanwhile, rentals at Novena/Thomson have been growing at a more gradual pace, at about 5% to 7% per annum over the same period.

Notably, average monthly gross office rentals in Orchard Road have been on a rise, registering a 4.7% y-o-y growth in 2013 and increasing by 5.6% q-o-q in Q1 2014 and 2.6% q-o-q in Q2 2014. It is likely that medical suite rentals are trending in a similar fashion.

3.6 Outlook

Limited supply and steady demand are expected to sustain rental growth
The medical suite market plays an important role in the growth of the overall healthcare services industry in Singapore. On the back of the government restructuring the healthcare model, which is expected to increase healthcare accessibility, there is growing demand of local and foreign patients for high quality healthcare and medical services. In addition, various medical group practices have been active in expanding their presence, particularly in Orchard Road/Tanglin.

On the supply side, there is no new supply of medical suites expected till 2016. In addition, many of the medical suites in the pipeline are positioned differently from existing medical suites, being strata-titled for sale and having smaller unit sizes. They may also not be as professionally managed as those in Orchard Road/Tanglin and lack branding.

Despite growing competition in the region, Singapore has a strong competitive advantage in offering high-quality healthcare and medical services.

Rentals for medical suites in Singapore are expected to grow steadily, in view of the strong rental prospects for the office market. In addition, rental growth for medical suites is likely to outperform that for office.

3.7 Implications on Paragon Medical

Orchard Road/Tanglin is Singapore's leading medical cluster and well-managed medical suites nearer to prominent hospitals such as Paragon Medical will see strong rental growth prospects
Medical suite rental growth in Orchard Road/Tanglin is expected to outperform the other clusters in Singapore, given the area's strong brand and positioning as a venue for high quality healthcare and medical services e.g., presence of renowned hospitals and a diverse range of retail and hotel amenities, which are key success factors for medical tourism.

There is no upcoming new supply in Orchard Road/Tanglin and the already limited availability of medical suites in the area will bolster stronger rental growth. Medical suite rentals for Orchard Road/Tanglin are expected to continue to increase over the next 12 months.

In particular, medical suites near prominent and well-established hospitals which are professionally managed e.g., Paragon Medical are well-positioned to ride the strong rental prospects for medical suites.

LIMITING CONDITIONS

Where it is stated in the report that information has been supplied to us in the preparation of this report by the sources listed, this information is believed to be reliable and we will accept no responsibility if this should be otherwise. All other information stated without being attributed directly to another party is obtained from our searches of records, examination of documents or enquiries with relevant government authorities.

The forward statements in this report are based on our expectations and forecasts for the future. These statements should be regarded as our assessment of the future, based on certain assumptions on variables which are subject to changing conditions. Changes in any of these variables may significantly affect our forecasts.

Utmost care and due diligence has been taken in the preparation of this report. We believe that the contents are accurate and our professional opinion and advice are based on prevailing market conditions as at the date of the report. As market conditions do change, we reserve the right to update our opinion and forecasts based on the latest market conditions.

DTZ gives no assurance that the forecasts and forward statements in this report will be achieved and undue reliance should not be placed on them.

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BY DTZ DEBENHAM TIE LEUNG (SEA) PTE LTD.
31 AUGUST 2014