MARKET OVERVIEW

1.0 MACRO-ECONOMIC OVERVIEW

1.1 GDP Growth and Retail Sales

Moderate economic growth in 2014 and H1 2015, as Singapore focuses on productivity growth

According to the Ministry of Trade and Industry (MTI), Singapore's real Gross Domestic Product (GDP) grew by 2.9% y-o-y in 2014. This was lower compared to the 4.4% in 2013, due to moderate growth in the construction sector and services producing industries. The slower growth was partly due to the government focusing on productivity growth and becoming a manpower-lean economy.

On a y-o-y basis, real GDP growth eased from 2.8% in Q1 2015 to 1.8% in Q2 2015. This resulted from the weaker than expected global economy that impacted externally-oriented sectors such as manufacturing.

Consumer confidence in Singapore remained high globally

Despite moderate economic growth, consumer confidence remained high in 2014 and H1 2015. The Nielsen Consumer Confidence Index for Singapore increased by 3.5%-points y-o-y to 100% for 2014, before a slight fall of 0.5%-points in H1 2015. As at end Q2 2015, Singapore's score of 99% was ranked the world's 14th most optimistic market, above the global average of 96%.

Retail sales remained largely the same as that in 2014, despite more Singapore residents travelling overseas

On the back of the growth of budget airlines and stronger SGD, there was a rise in outbound departures of Singapore residents by 21.3% from 2010 to 2014. Notwithstanding, total retail sales(1) (excluding motor vehicles) remained relatively stable from 2011 to 2013, with a 0.7% decline y-o-y in 2014. Retail sales continued to contract by 0.1% and 0.8% y-o-y in Q1 2015 and Q2 2015 respectively.

Meanwhile, Private Consumption Expenditure (PCE), a reflection of consumer confidence and household retail spending, continued to grow by 2.5% in 2014, albeit lower than the 3.6% in 2013.

1.2 Tourism

Tourism sector moderated in 2014 and H1 2015, with some signs of improvement in recent months

As a result of various external events such as aviation incidents and regional geo-political issues, international tourist arrivals declined by 3.0% y-o-y to 15.1 million(2) in 2014, mainly due to the fall in Mainland Chinese visitors who are typically on tour packages to Thailand, Malaysia and Singapore.

While Indonesian visitors to Singapore also declined by 2.1% to 3.0 million in 2014, Indonesia continued to be the largest tourism market, accounting for 20% of the overall international visitor arrivals. This is followed by visitors from Mainland China (1.7 million; 11%) and Malaysia (1.2 million; 8%).

Despite the moderation in visitor arrivals, tourism receipts stayed firm at $23.6 billion(3).

There was an increase in Free-and-Independent Travellers (FITs) from countries such as China and Australia, who visited Singapore as a mono-destination. In addition, visitor arrivals from other countries remained resilient, rising by nearly 1% y-o-y in 2014. According to the Singapore Tourism Board (STB), Hong Kong (+16.9%), South Korea (+13.8%) and Vietnam (+11.5%) registered the highest growth rates among the top 15 international visitor-generating markets in 2014. This was due to the proliferation of budget airlines and increased air capacity.

Visitor arrivals from January to July 2015 amounted to 8.8 million, registering a 1.7% y-o-y decline. Visitor arrivals have picked up in recent months, especially with a return in Mainland Chinese visitors. The slew of large-scale events planned for the rest of 2015 is also expected to boost visitor arrivals. STB expects overall visitor arrivals in Singapore to reach 15.1 to 15.5 million in 2015.

Singapore continues to be well-positioned as a global retail and tourism destination. Prominent travel media company Lonely Planet ranked Singapore as the top 2015 tourist destination in 2014, citing its "life-changing" food, "emerging" local fashion industry and new attractions as the major pull factors. The city-state also continues to be a top Meetings, Incentives, Conventions and Events (MICE) destination.

1.3 Outlook

Singapore's real GDP growth in 2015 projected at 2.0% to 2.5%

Despite its recent weak performance, the global economy is expected to improve in 2015 at a gradual pace. It is underpinned by the recovery of the US economy and anticipated economic growth in the Eurozone, as a result of the quantitative easing measures introduced since March 2015. However, the slowdown in Mainland China's economy, coupled with the continued tight domestic labour market, pose some risks.

Taking the above into account, the government forecasts Singapore's real GDP growth to be between 2.0% and 2.5% in 2015 (Table 1.1). Oxford Economics (OE) forecasts real GDP to grow by 3.3% in 2016.

(1) Based on the monthly retail sales and food and beverages indices from the Department of Statistics Singapore (DOS).
(2) Source: Singapore Tourism Board International Visitor Arrivals Statistics.
(3) All currencies in this report are in SGD, unless stated otherwise.

Table 1.1: Key Macro-economic Indicators

Indicator	2014	2015 F	2016 F
Real GDP Growth	2.9%	2.0% to 2.5% (MTI)	3.3% (OE)
Inflation	1.0%	-0.5% to 0.5% (MAS)	2.3% (OE)
Population Growth	1.3%	1.3% (OE)	1.3% (OE)
International Visitor Arrivals (STB)	15.1 million	15.1 to 15.5 million (8.8 million in January to July 2015)	NA
Tourism Receipts (STB)	$23.6 billion	$23.5 to $24.0 billion	NA

Source: MTI, DOS, MAS, Oxford Economics, DTZ Consulting & Research, September 2015.

Large scale events and efforts by government agencies expected to boost tourism and retail industries
The government continues to be pro-active in boosting the tourism industry. For instance, STB and Changi Airport Group signed a multi-million marketing collaboration with Royal Caribbean International in August 2015 to promote cruising in Singapore. The collaboration is estimated to attract over 170,000 visitors to Singapore to sail on the Royal Caribbean cruises between 2015 and 2018, and generate over $100 million in tourism receipts. Emphasis will also be on the MICE industry, with some 35% increase in marketing investment, to consolidate Singapore's position as a top MICE destination.

In addition, the conferment of Singapore Botanic Gardens as Singapore's first UNESCO World Heritage Site in July 2015 and occurrence of several large scale events such as Formula 1® Singapore Grand Prix in September are likely to improve visitor arrivals and boost the retail demand in Singapore.

Much effort has been placed in revitalising the retail sector. STB has been actively promoting Singapore as the tourist destination through the injection of over $20 million in marketing efforts to boost tourism.

Coupled with the massive promotional activities to celebrate Singapore's Golden Jubilee, retail spending is expected to pick up in H2 2015. Based on forecasts by OE, the outlook for retail sales in 2015 is relatively optimistic, with retail sales projected to grow by 3.8% y-o-y, higher compared to 2014 (0.3%).

2.0 RETAIL PROPERTY MARKET[4]

2.1 Retail Trends

Traditional brick-and-mortar retailers facing greater competition from online shopping – Retailers are facing greater competition as online shopping becomes more popular. The importance of e-commerce is evident from the increase in online expenditure in Singapore. According to MasterCard in September 2015, during the Great Singapore Sale 2015, $303.5 million was spent online by Singapore cardholders locally, a 5.6% increase y-o-y. In addition, there was a 9.8% growth y-o-y in e-commerce transactions during this period.

The impact of online shopping and e-commerce on retailers in Singapore is significant, given the city-state's high internet and smartphone penetration rates[5]. Euromonitor forecasts internet retailing to grow rapidly by more than 10% per annum till 2019, almost three times that of store-based retailing.

In response to the fast growing number of consumers engaging in online shopping, brick-and-mortar retailers are becoming more innovative, augmenting their competitiveness through the use of e-commerce and omni-channel marketing. Examples include Charles and Keith, Kate Spade and Watson's as well as supermarket chains such as Cold Storage and NTUC FairPrice.

The government also launched the second Retail Productivity Plan in September 2015, which aims to help retailers in Singapore to sell and market their products on international platforms such as Amazon and Alibaba. It will also help retailers with branding and concept innovation as well as create more opportunities to improve operational efficiency.

Likewise, retail malls, including ION Orchard and Suntec City, have introduced mobile apps to expand their online presence.

Introduction of new-to-market brands and new retail concepts – Amid rising competition, landlords continue to introduce new-to-market retailers to cater to the ever-changing consumer tastes. For example, about 65% of the tenants at Capitol Piazza, which opened in Q2 2015, were flagship stores and new-to-market brands e.g., Marimekko, Dazzling Cafe and Angelina.

(4) This report focuses on retail space held by the private sector.
(5) In Singapore, resident household access to internet is at 88% and its smartphone penetration rate is at 85%, as at end 2014 (Source: Infocomm Development Authority).

In July 2015, British label John Lewis made its Singapore debut at Robinsons. New retail concepts were also introduced in Paragon. MUJI introduced its first Café&Meal MUJI concept in Singapore in September 2015 while Clarks Originals will be opening its first stand-alone store in October 2015.

Steady demand for luxury and designer brands – Average resident monthly household income has increased steadily by about 5% per annum from 2005 to 2014 to $9,982. The rising affluence has supported the demand for luxury and designer brands.

Continuous efforts to revitalise and refresh retail offerings – Retail landlords continue to be pro-active, implementing Asset Enhancement Initiatives (AEI) and refreshing their tenant mix to remain relevant. VivoCity completed its AEI in April 2015, adding nine new retailers. Malls like Plaza Singapura and The Centrepoint also plan to undergo refurbishments to introduce more spacious layouts, new tenant mixes and thematic zones to remain competitive.

Increasing presence of pop-up stores – As retailers struggle with rising operational costs, landlords have been offering flexible lease tenures via pop-up stores. The lease period of such pop-up stores typically ranges from three to 12 months.

The increasing presence of pop-up stores not only allows landlords to periodically refresh its tenant mix, but also allows landlords to manage transitional vacancies.

2.2 Existing Supply[6]

2.4 million sq ft completed in 2014, the highest since 2009

A total of 2.4 million sq ft of retail NLA was completed in 2014, the highest since 2009 (2.6 million sq ft). Bulk of the new supply (74%; 1.8 million sq ft) in 2014 was in the Suburban Areas. About 407,000 sq ft (17%) was completed in Orchard/ Scotts Road, while 222,000 sq ft (9%) was in the Other City Areas.

400,000 sq ft completed in H1 2015

About 400,000 sq ft was completed in H1 2015. This includes Capitol Piazza and 321 Clementi.

Major retail completions in 2014 and H1 2015 are highlighted in Table 2.1.

Table 2.1: Major Retail Completions in 2014 and H1 2015

Development	Location	Net Lettable Area (sq ft)
2014		
orchardgateway	Orchard Road	167,000
268 Orchard	Orchard Road	122,000
AEI at Shaw Centre	Scotts Road	104,000
BIGBOX	Venture Avenue	400,000
ONE KM	Tanjong Katong Road	204,000
Eastpoint Mall	Simei Street 6	200,000
The Seletar Mall	Sengkang West Avenue	188,000
H1 2015		
Capitol Piazza	Stamford Road	131,000
AEI at Suntec City	Temasek Boulevard	105,000 (all phases)
321 Clementi	Clementi Avenue 3	57,000

Source: URA, DTZ Consulting & Research, September 2015

Islandwide retail stock was 47.4 million sq ft, as at end Q2 2015. Majority is situated in the Suburban Areas (50%; 23.7 million sq ft), while the remaining are located in the Other City Areas (34%; 16.2 million sq ft) and Orchard/ Scotts Road (16%; 7.6 million sq ft).

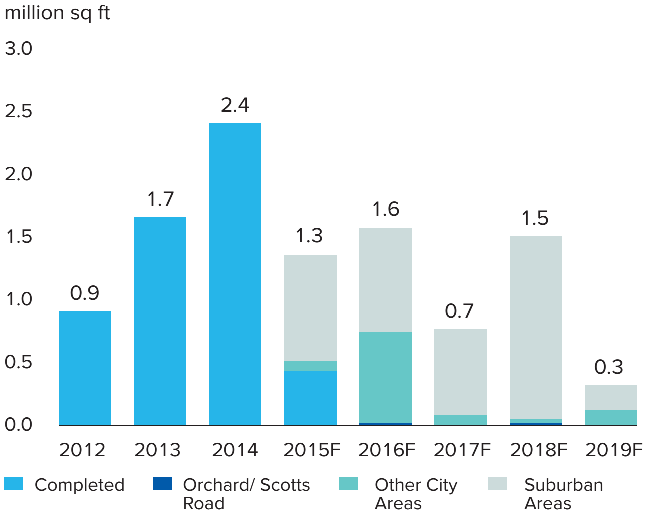
2.3 Potential Supply

About 5.0 million sq ft in the pipeline from Q3 2015 to 2019

From Q3 2015 to 2019, approximately 5.0 million sq ft of retail space is expected to complete. Majority (80%; 4.0 million sq ft) will be in the Suburban Areas, while about 20%, or some 1.0 million sq ft will be in the Other City Areas. The pipeline supply from 2015 to 2018 is relatively balanced at about 0.7 to 1.6 million sq ft per annum, lower than that in 2013 (1.7 million sq ft) and 2014 (2.4 million sq ft) (Figure 2.1).

(6) Retail supply, demand and occupancy figures in this report are based on URA's statistics.

Figure 2.1: Retail New Supply



Source: URA, DTZ Consulting & Research, September 2015

Meanwhile, the pipeline supply in Orchard/ Scotts Road is expected to remain limited, at about 17,000 sq ft or 0.3% of the total projected supply. The new supply is mainly from residential and hotel projects e.g., The Biltmore and Yotel, with no major retail developments scheduled to complete in the area.

Upcoming supply in the Suburban Areas mainly located in new estates

Although majority (80%) of the potential supply from Q3 2015 to 2019 are located in the Suburban Areas, most of the new retail malls will be situated in new residential areas.

The Punggol Planning Area for instance, has at least three retail developments in the pipeline totalling 502,000 sq ft to serve the rising number of residents in the estate. This includes Waterway Point (371,000 sq ft), which is scheduled to open in Q4 2015.

Despite the large supply of upcoming retail space in the Suburban Areas, only one upcoming development will be in Clementi. NeWest, located at West Coast Drive, is a mixed-use residential and commercial development with 74,000 sq ft of retail space, and is expected to complete in 2016.

2.4 Demand and Occupancy

While net absorption was positive in 2014, demand moderated in H1 2015

Islandwide net absorption[7] remained positive at 1.7 million sq ft in 2014, indicating firm demand for retail spaces across the city-state. Notwithstanding, islandwide occupancy rate fell by 1.5%-points y-o-y to 93.5% in 2014, due to the large supply of 2.4 million sq ft in 2014.

Net absorption was -299,000 sq ft in H1 2015, due to some retailers vacating their premises. This was especially apparent in Orchard/ Scotts Road, where net absorption was -184,000 sq ft. Notable closures include Marks & Spencers and Cold Storage at The Centrepoint, Isetan at Wisma Atria and John Little at Marina Square and Tiong Bahru Plaza. LifeBrandz has also ceased operations at Clarke Quay, closing its F&B and entertainment outlets such as Mulligan's Irish Pub and Aquanova in March 2015.

As retailers and F&B establishments encounter tighter labour policies and manpower shortages, some are focusing in strategic locations. Metro for instance, will not be renewing its lease at Compass Point and City Square after it expires in August and December 2015 respectively.

Notwithstanding, islandwide occupancy rate remained above 90% in H1 2015. In particular, occupancy rates in Orchard/ Scotts Road and Suburban Areas were higher, at 92.0% and 93.0% as at Q2 2015 respectively.

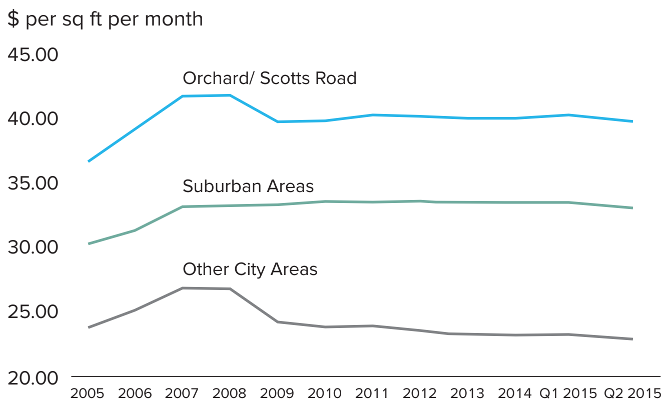
2.5 Rents

Landlords are exercising greater rental flexibility

The weaker retail market and rising business costs have generally resulted in greater resistance from tenants relating to rent increases. As a result, landlords have been more flexible during rental negotiations.

According to DTZ, islandwide average fixed gross retail rents for prime first and upper-storey retail units have been relatively stable since 2009. However, in Q2 2015, islandwide average rents moderated by 2.2% y-o-y amid operating headwinds. Average prime first-storey rents[8] in Orchard/ Scotts Road and the Suburban Areas were more resilient, declining by 0.5% and 1.3% y-o-y respectively in Q2 2015 (Figure 2.2).

Figure 2.2: Average Prime First-storey Fixed Gross Rents



Source: DTZ Consulting & Research, September 2015

(7) Net absorption is the change in the total occupied or let floor space over a specified period of time, either positive or negative.

(8) Refers to the average gross rents (excluding turnover rents) of prime specialty retail shops good frontage or pedestrian footage.

MARKET OVERVIEW

2.6 Outlook

Overall rents expected to soften due to global economic uncertainty

Challenges faced by retailers are likely to continue and this will exert downward pressure on retail rents in H2 2015. The weakening of the regional currencies against the SGD is expected to continue through the year. Consequently, further strain on the tourism sector is expected as visitors may avoid the city-state due to rising costs. The decline in consumer confidence is also likely to weigh on retail sales growth, as consumers curtail their spending.

To remain competitive, retailers are reinventing e.g., offering exclusive discounts to encourage purchases. Landlords are also helping retailers to tide through the challenges by offering rental rebates as well as rental holidays for new tenants.

Going into 2016, overall retail rents in Orchard/ Scotts Road and the Suburban Areas are expected to soften further due to the weakened sector. Nonetheless, well-positioned malls that are able to offer unique experiences as well as a diverse range of offerings are more likely to be resilient.

2.7 Implications on Paragon

Rents in Orchard/ Scotts Road expected to be supported by limited supply, new-to-market tenants

While occupancy rate in Orchard/ Scotts Road moderated by 1.5%-points y-o-y to 93.5% in 2014, Paragon has stood against competition, maintaining full occupancy as it has for over the past decade. Paragon, an established premier luxury shopping mall which enjoys strong centre management, continues to be one of the top retail developments in the area and its rents are likely to hold up well.

With a strong reputation as the prime shopping district in Singapore, retail developments in Orchard/ Scotts Road have been a magnet to new-to-market retailers. Retail rents in Orchard/ Scotts Road are expected to be supported by limited supply. Only 0.3% (17,000 sq ft) of the total supply from Q3 2015 to 2019 will be located in Orchard/ Scotts Road.

Orchard/ Scotts Road, the most popular shopping and free-access attraction in Singapore, with a total of 7.6 million sq ft of retail space in over 60 retail developments, is supported by over 12,000 hotel rooms and serviced apartments in the vicinity. Going forward, an estimated additional 2,600 hotel rooms are expected in Orchard/ Scotts Road from Q3 2015 to 2017.

2.8 Implications on The Clementi Mall

Rents in Clementi planning area to remain firm

The Clementi Mall has excellent connectivity, with its co-location with a bus interchange and connection to the Clementi MRT station. It is strategically located at the heart of Clementi Planning Area[9] and enjoys a strong catchment. Apart from serving about 91,000 residents[10] in the Clementi Planning Area and about 173,000 residents in the neighbouring Bukit Timah and Queenstown Planning Areas, The Clementi Mall is supported by more than 60,000 students from tertiary institutions in the area, as well as the significant working population at one-north.

Following the recent completion of residential developments Trivelis (888 units) and The Vision (295 units), The Clementi Mall's resident catchment is expected to increase further over the next few years, with upcoming residential projects such as Clementi Ridges (684 units), Clementi Gateway (278 units), Clementi Crest (385 units), The Trilinq (755 units) and Seahill (176 units). The Clementi Mall is well-positioned to cater to this growing catchment, given its variety of offerings and central location.

With limited potential supply between Q3 2015 and 2019 in the Clementi Planning Area, retail rents in Clementi are expected to remain relatively firm going forward.

3.0 MEDICAL SUITE PROPERTY MARKET

3.1 Healthcare Services Industry Trends

Growing affluence and population in SEA expected to bolster demand for healthcare and medical services

The healthcare industry has grown rapidly in Asia[11]. Likewise, demand for healthcare and medical services in South East Asia (SEA) is expected to increase. Key growth drivers in the region include a fast-growing middle class as well as an ageing population. In particular, OE forecasts that expenditure on hospital and outpatient services in SEA will rise by 5.0% y-o-y to USD34.6 ($49.0) billion in 2016.

Singapore's established status and branding as a world-class medical destination has enabled it to capitalise on SEA's growth potential. Latest statistics from STB showed that 77% ($638 million) of medical tourism receipts in 2013 was from SEA, mainly Indonesia (56%), followed by Vietnam (10%) and Malaysia (9%).

In particular, the medical tourism receipts per capita for Vietnam and Indonesia were among the highest[12] in 2013 at $212 and $150 respectively, while that for Malaysia was $61. On the other hand, Mainland Chinese visitors accounted for only 3% ($28 million) of the medical tourism receipts in 2013. Similarly, medical tourism receipts per capita for Mainland China was low at $13 in 2013.

(9) Based on the URA's planning boundaries.
(10) Source: DOS Singapore's Population Statistics for 2014.
(11) According to Frost and Sullivan in 2014, healthcare spending in Asia is expected to grow from USD1.34 trillion in 2013 to USD2.2 trillion in 2018.
(12) Global average of annual medical tourism receipts per capita in 2013 was $53.

Competition for the medical tourism pie is growing
Despite the strong potential of the healthcare market in Asia, Singapore is facing intense competition from other countries e.g., Thailand and Malaysia, amid more affordable travel and medical options, online connectivity and weakening regional currencies. For instance, while specialist services have been Singapore's key competitive advantage, Thailand has long rivaled the city-state in this aspect. Notably, Bumrungrad International was the first Asian hospital to receive the accreditation as a Joint Commission International Hospital, attesting to its high standards of healthcare quality. Meanwhile, Malaysia is gaining ground, in terms of the quality of healthcare and medical services and its private healthcare providers are increasingly recognised internationally.

Amid increased competition, Singapore saw a decline in its medical tourism receipts for the first time in 2013, from $1.1 billion in 2012 to $832 million[(13)] in 2013. On the other hand, Thailand and Malaysia have experienced strong growth in their earnings from medical tourism in recent years. According to the Malaysia Healthcare Travel Council, the number of healthcare travellers to Malaysia has increased by an average of about 13% per annum from 641,000 in 2011 to 882,000 in 2014. Meanwhile, medical tourism revenue in Malaysia is also growing at a similar pace at about 11% per annum from RM594 ($193) million in 2012 to RM730 ($237) million in 2014, according to Malaysia's Ministry of Health.

In addition, Mainland China and Japan are also looking to ramp up their medical tourism sector, as they aim to grow foreign tourism to boost their economies.

With the formation of the Asean Economic Community (AEC) by end 2015, there will be a freer flow of capital, goods and services and skilled labour, which will also benefit the healthcare sector. Nonetheless, as private healthcare service providers find it easier to venture to developing markets, Singapore will face more competition in the long-term.

Singapore possesses a dynamic and established eco-system of healthcare and medical services
Notwithstanding the increased competition, Singapore has an established eco-system of healthcare and medical services.

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

The increased number of international research organisations in Singapore e.g., American Association for Cancer Research, Duke University and John Hopkins University, has also helped to uphold Singapore's reputation as a world class medical hub.

In addition, healthcare service providers in Singapore have established comprehensive platforms with industry partners e.g., IT systems, medical equipment pharmaceuticals, nutrition and consumer lifestyle, to co-develop and test new products, solution and business models. The collaborative environment has enabled the medical sector to explore image-guided and robotic-assisted surgery, augmenting the city-state's competitive advantage in offering world-class medical services.

Local demand and healthcare expenditure to continue to grow
While Singapore's medical tourism sector is facing some challenges, domestic demand for private healthcare services is expected to expand due to rising affluence, changing lifestyles and aspirations e.g., healthcare in Singapore is increasingly perceived as part of improving one's quality of life and well-being. The ageing population in Singapore is another key driver, with the number of citizens aged 65 years and above estimated to nearly double from 440,000 in 2015 to 900,000 in 2030. This translates to a compound annual growth rate of 4.9%[(14)], which is three times that of overall population growth.

In line with the abovementioned, OE forecasts consumer spending in hospital and out-patient services in Singapore to increase by 5.3% y-o-y to USD5.2 ($7.4) billion in 2016.

3.2 Government Policies

Total Gross Floor Area of medical clinics (or medical suites) is restricted under the new guidelines on allowable quantum for medical clinics in commercial buildings
To ensure that medical centres are located appropriately on sites zoned for Health and Medical Care, URA and the Ministry of Health (MOH) implemented new guidelines to guide the conversion of commercial space to medical clinics.

With effect from 23 December 2014, the total Gross Floor Area (GFA) of medical clinics in commercial buildings are capped at 3,000 sq m (32,292 sq ft) or 20% of the total floor area approved for commercial use, whichever is lower. Approved and existing medical clinics located in a commercial development that have exceeded the cap are allowed to remain and will not be required to reduce their total floor area.

(13) Source: STB's Annual Report on Tourism Statistics for 2013.

(14) Source: Department of Statistics Singapore and Frost and Sullivian.

3.3 Existing Supply

New medical suites in H1 2015

There were some additions to the medical suite stock in H1 2015. Raffles Medical Group converted a floor (34,000 sq ft) in Raffles Hospital at North Bridge Road (Other Areas), which was previously used as a research centre by Pfizer, to specialist clinics and a bone marrow transplant centre.

Raffles Medical Group also opened a new multi-disciplinary medical centre (17,500 sq ft) at the 4th and 5th floors of the newly revamped Shaw Centre in Orchard Road/ Tanglin in July 2015.

Close to 1,600 medical suites in Singapore

With the new additions, DTZ estimates that there are close to 1,600 medical suites in Singapore, as at August 2015. Majority (63%, close to 1,000 units) are hospital-supported medical suites, while the remaining (37%, almost 600 units) are medical suites in standalone developments.

Of the medical suites in standalone developments, approximately 70% (418 units) are for lease only. Such medical suites e.g., Paragon Medical and Camden Medical Centre, usually managed by dedicated property management teams, major medical group practices and REITs, are limited in number, especially in Orchard/ Scotts Road and typically command a rental premium over those which are strata-titled for sale.

Orchard Road/ Tanglin continues to be the largest medical suite cluster in Singapore

Being an established premier healthcare and medical destination for both locals and foreigners, Orchard Road/ Tanglin continues to account for majority (46%, 741 units) of the medical suite stock in Singapore. Of this, 53% (396 units) are hospital-supported, while 34% (249 units) are medical suites in standalone development that are for lease only.

Notwithstanding the new additions in H1 2015, Paragon Medical (75 units) continues to be the largest standalone medical centre in Orchard Road/ Tanglin. It has maintained a strong competitive advantage over other medical suites in the area, given its close proximity to Mount Elizabeth Hospital and Medical Centre (Orchard).

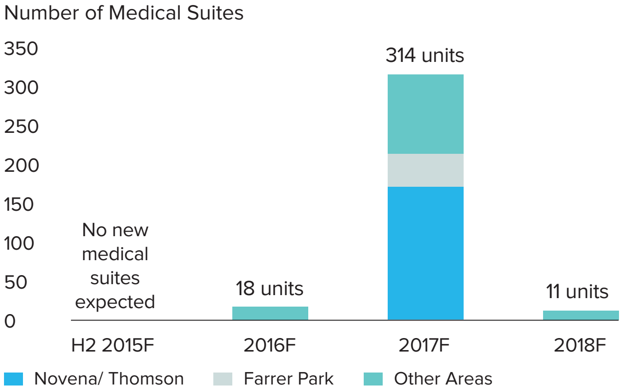
3.4 Potential Supply

An estimated 350 to 400 medical suites in the pipeline

The pipeline supply for medical suites remains largely similar to 2014's estimate (350 to 400 units). Supply will be tight for the rest of 2015 and 2016, with only Raffles Medical Group's 9,000 sq ft medical centre at Holland Village completing in 2016.

According to URA, most of the medical suites in the pipeline are expected to complete in 2017 (Figure 3.1). The completion of some potential developments may be postponed from 2017 to 2018. This includes Royal Square at Novena (171 units) and Vision Exchange (53 units).

Figure 3.1: Potential Supply[15]



Source: DTZ Consulting & Research, September 2015

Raffles Medical Group is also developing a 20-storey extension to its existing hospital at North Bridge Road, and it is expected to complete in H1 2017. It will house specialist and family medicine clinics, diagnostic services, as well as training facilities and supporting F&B.

Supply in Orchard Road/ Tanglin expected to remain relatively tight

There is limited potential supply in Orchard Road/ Tanglin over the next few years. The only known project in the pipeline is the enhancement of TripleOne Somerset by Perennial Real Estate, which received planning permission[16] to increase the development's retail footprint from the existing 70,000 sq ft. The new retail podium is expected to house retail and education trades, as well as up to 32,000 sq ft (GFA) of medical suites. Perennial Real Estate intends to strata-sell the offices at TripleOne Somerset in the future.

Meanwhile, most of the pipeline supply in Singapore will come from Royal Square at Novena, Vision Exchange and SBF Center (48 units), which are mixed-use commercial developments with components such as office, retail and hotel. The medical suites at these developments are also available for sale. Apart from SBF Center which is almost fully sold, the other developments still have a considerable number of medical suites available for sale.

Medical suites in Orchard Road/ Tanglin remain well-positioned

The pipeline supply is not expected to impact Orchard Road/ Tanglin's position as a premier healthcare and medical services cluster. Most of the medical suites in the pipeline, especially those for sale, are small and lack the strong branding in the Orchard Road/ Tanglin area.

(15) Excludes potential supply from Raffles Hospital Extension and enhancement plan of TripleOne Somerset, as information on the number of medical suites from these projects is not available.
(16) As at 30 June 2015, the developer has indicated that the enhancement plans are still subject to final approval from relevant authorities.

3.5 Demand and Occupancy

Occupancy, especially those in Orchard Road/ Tanglin, held steady in H2 2014 and H1 2015

Despite growing competition for medical tourism in the region, medical group practices, such as Raffles Medical Group, continued to expand to cater to an increase in patient base.

Notably, the demand for well-located and well-positioned medical suites such as Paragon Medical remained healthy. On the other hand, medical suites located in peripheral locations that are not close to established hospitals or are not holistically managed, are not as popular and remained vacant.

3.6 Rents

Rents have been stable since H2 2014

Average gross rents for medical suites have generally remained stable from August 2014 to August 2015. The moderate economic growth and challenges Singapore faces in growing its medical tourism market weighed on rental growth. End-users have become somewhat more cost-sensitive, while landlords are more flexible. This is especially so for medical suites which command high rents of as much as above $20 per sq ft per month.

While asking monthly rents for medical suites at Novena/ Thomson remained stable at around $8 – $10 per sq ft, those for medical suites in standalone developments in Orchard Road/ Tanglin were estimated to be at $9 – $14 per sq ft as at August 2015. Meanwhile, asking monthly rents for medical suites at Mount Elizabeth Medical Centre (Orchard) were estimated to be around $15 – $26 per sq ft in August 2015.

3.7 Outlook

Rents expected to remain relatively resilient in 2016

The moderate economic prospects for Singapore and growing competition for medical tourism are expected to weigh on the demand for healthcare and medical services in the short term. Notwithstanding, there continues to be support from domestic demand, given Singapore's ageing population.

The supply of medical suites in Singapore in 2016 is expected to remain limited and there are not many alternatives, especially in sought-after locations such as Orchard Road. Amid the tighter guidelines on the allowable quantum for medical clinics in commercial buildings, it is unlikely that there will be significant commercial space converting to medical suites.

With the limited pipeline supply offsetting the expected moderation in demand, DTZ expects rents for medical suites to remain relatively resilient.

3.8 Implications on Paragon Medical

Well-managed medical suites with strong branding such as Paragon Medical are expected to be resilient

Despite regional competition, Singapore's healthcare and medical service remain internationally recognised as one of the best and most efficient globally[17]. In particular, Orchard Road/ Tanglin continues to be Singapore's most established and premier medical cluster.

Coupled with the fact that supply in Orchard Road/ Tanglin is expected to remain relatively tight over the next few years, medical suite rents in the area, especially for well-managed developments like Paragon Medical which is near Mount Elizabeth Hospital, are expected to be resilient.

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.
September 2015

(17) Bloomberg ranked Singapore as having the most efficient healthcare system, out of 51 countries, in 2014. The Economist Intelligence Unit ranked Singapore the second in the world for healthcare outcomes in 2014.