

# Briefing Industrial sector

July 2014

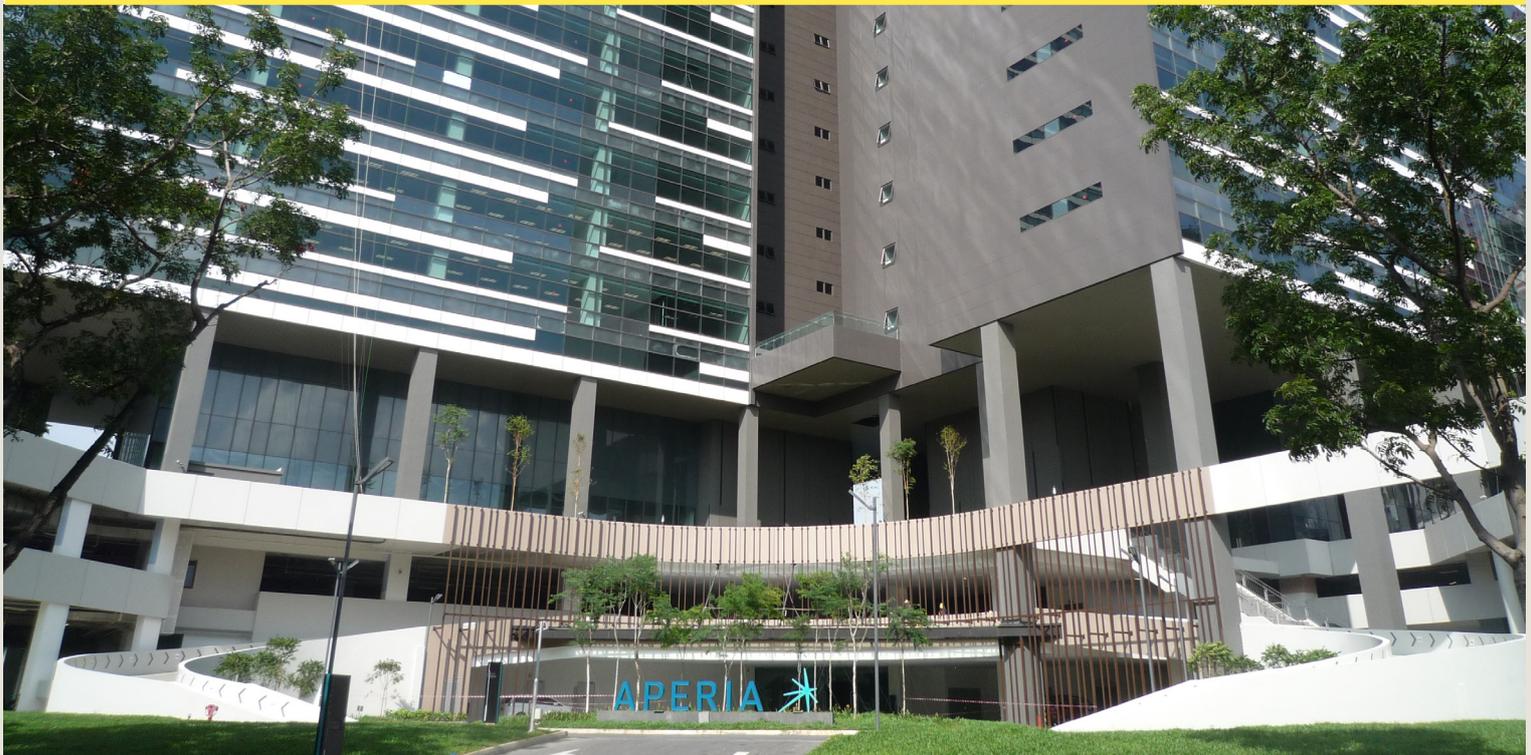


Image: Aperia, Kallang Avenue

## SUMMARY

Uncertainty looms in the sales market but optimism rules in the leasing sector.

- Sales volumes fell 28.2% quarter-on-quarter (QoQ) in Q2/2014.
- Prices of 30-year leasehold upper-storey factory and warehouse units tracked by Savills fell 1.5%, while 60-year leasehold and freehold prices climbed 0.9% and 3.4% respectively
- The leasing sector remained active as April and May, recording 1,426 deals, 18.6% short of Q1's total
- Business park space recorded a strong performance and is expected to achieve high occupancy rates despite the increasing supply in 2016.

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 “Notwithstanding weaker industrial production for 2014, healthy leasing numbers appear to point to optimism for industrial space users. However, prices and rents should remain in check due to increasing supply coming on stream.” Alan Cheong, Savills Research  
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➔ **Macro economic overview**

Economies of developed countries, especially G3 economies, have shown a continual moderate recovery in Q2/2014. GDP for the US is expected to grow at 3.5% in the said quarter as the unemployment rate has fallen faster than expected. In Japan, Abenomic's first two arrows (fiscal stimulus and monetary easing) have led to improvement in the business environment. However, there is less certainty in the eurozone recovery, although the indicators pointing to a recovery are seen in a wider spectrum than in the past. Another major economy, China, also started implementing mild stimulus in April to allow higher growth in its economy, therefore benefitting its partner nations.

Despite the positive growth in the greater global economy, Singapore has yet to latch on to the recovery wave. Singapore's Purchasing Manager's Index (PMI) recorded a reading of 50.5 in June and is slowing for the second consecutive month (a reading below 50 signifies a contraction). Non-oil domestic exports (NODX) also slipped 6.6% year-on-year (YoY) in May, with all exports to Singapore's top ten markets recording a fall except China, Malaysia and Indonesia. Singapore's overall economy grew 4.9% in Q1/2014, but economists

estimate growth in the second quarter to hover around 3.3%.

**Sales market**

The second quarter recorded thin sales volumes with only 354 caveats lodged for strata factories and warehouses, 28.2% lower than the previous quarter and 63.3% down YoY<sup>1</sup>. Quarterly growth is also weaker than the 66.4% average QoQ growth for the second quarter in the past five years. We also note that 60-year leasehold units sold more than twice the number of both freehold and 30-year leasehold units. This implies that there is greater buying confidence in 60-year leasehold units as they are perceived to be more fairly priced.

In the reviewed quarter, prices of Savills basket of upper-storey strata factories and warehouses declined for those on 30-year tenures but increased for the rest. Prices of 30-year leasehold industrial units were 1.5% lower QoQ at S\$369 per sq ft. However, 60-year leasehold and freehold units rose 0.9% and 3.4% respectively to S\$481 and S\$704 per sq ft. The current oversupply of 30-year leasehold units, which has had a negative impact on prices, is exacerbated by the government's

<sup>1</sup> Singapore Institute of Surveyors and Valuers REALink caveats as of 10 July 2014.

intention to release an average of about 5.4 million sq ft of multi-user factory space over the next three years.

**Leasing market**

The Republic's industrial leasing scene remains as active as in the previous few quarters. There were a total of 1,426 rental transactions in April and May. With a month to go, rental volumes for Q2/2014 are likely to surpass Q1's total of 1,752 deals. The high volumes recorded this quarter reflect the optimism of industrialists towards the manufacturing business in the near future despite Singapore's rather lacklustre manufacturing growth numbers relative to the greater global economy.

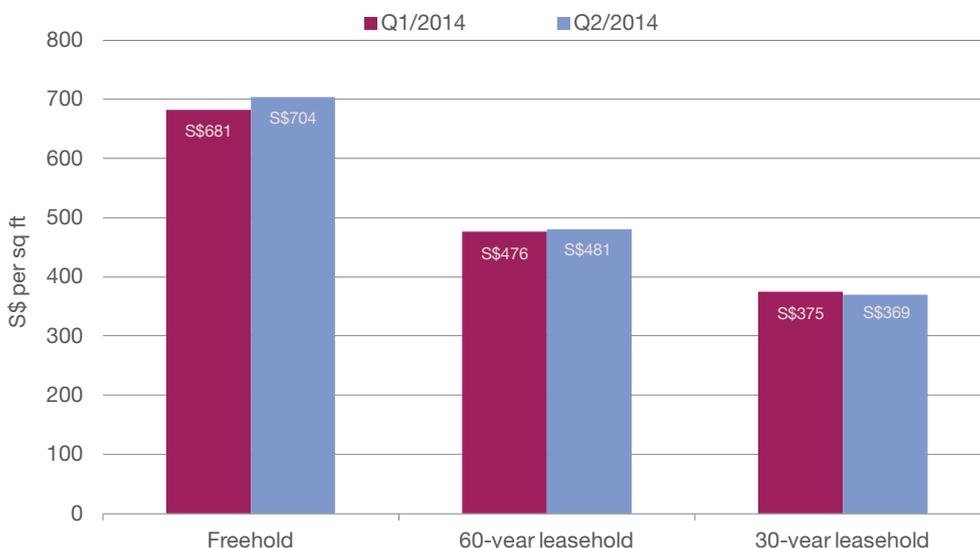
Meanwhile, with manufacturers battling to contain high operation costs and landlords pushing for better rental returns, rents are continuing to stagnate. Monthly rents of both upper-storey factory and warehouse units remained at S\$2.00 per sq ft, while high-tech units were also unchanged at S\$3.00 per sq ft per month.

**Business park**

The business park leasing market was very active in Q2/2014. A total of 61 leasing transactions were recorded island-wide in April and May, and is most likely to break the record of 68 deals set in Q3/2012 and Q1/2013. There was no leasing activity in Mapletree Business City in the first two months of the reviewed quarter, mainly due to its low vacancy rate (about 16,000 sq ft of vacant space over an approximate 1.72 million sq ft of net lettable area).

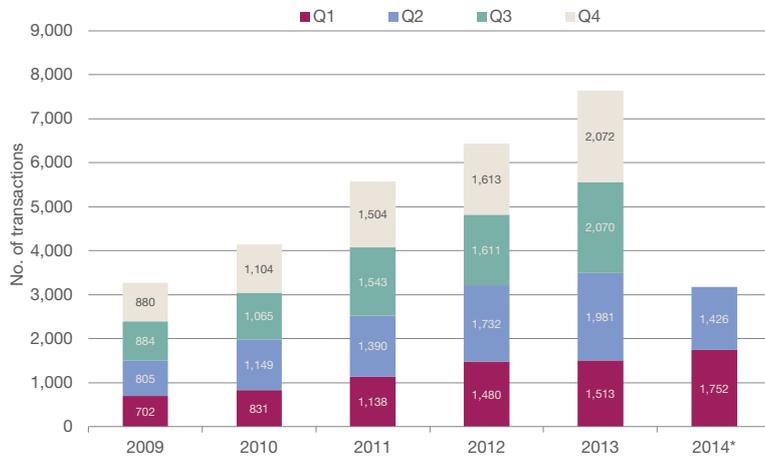
As business park space is limited at Mapletree Business City, Mapletree Investments has begun the second phase of development on the adjacent plot occupied by The Comtech at Alexandra Terrace. Expected to be completed in 2016, Mapletree Business City II will add an additional 1.3 million sq ft GFA, comprising a 30-storey business park tower and three podium buildings. ■

GRAPH 1 **Prices of upper-storey factory and warehouse units, Q1/2014 and Q2/2014**



Source: Urban Redevelopment Authority (URA), Savills Research & Consultancy

**GRAPH 2**  
**Leasing volumes of factories and warehouses, 2009–Q2/2014\***



Source: URA, Savills Research & Consultancy  
\*Q2/2014 only includes April and May figures.

**TABLE 1**  
**Business park leasing volumes and values, Q2/2014**

	No. of deals	Total value (S\$)	Average value per transaction (S\$)	Median rent (S\$ per sq ft)
Changi Business Park	8	267,106	33,388	4.15
International Business Park	16	211,085	13,193	4.07
Science Park 1	5	70,786	14,157	3.85
Science Park 2	27	364,113	13,486	4.00
One-North	5	170,604	34,121	5.65

Source: URA, Savills Research & Consultancy

## OUTLOOK

### The prospects for the market

Singapore has not yet kept pace with the improving global economies. Industrialists in the local market are keeping their hopes up for the near future, as employment is expected to increase in Q3/2014. This could translate to higher take-up of industrial properties. This being said, landlords of industrial properties may want to keep an eye on competition over in the Iskandar region, as a small number of manufacturers have started moving their operations across the Johor Straits in an effort to reduce costs.

Looking into the sales market, the number of transactions is expected to remain low compared with previous years due to the price gap between buyers and sellers. The upcoming large supply of 30-year leasehold multi-user factories will continue to apply downward pressure on prices.

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### Savills Research

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