savills

Savills Research
Singapore

Briefing
Industrial sector

April 2012

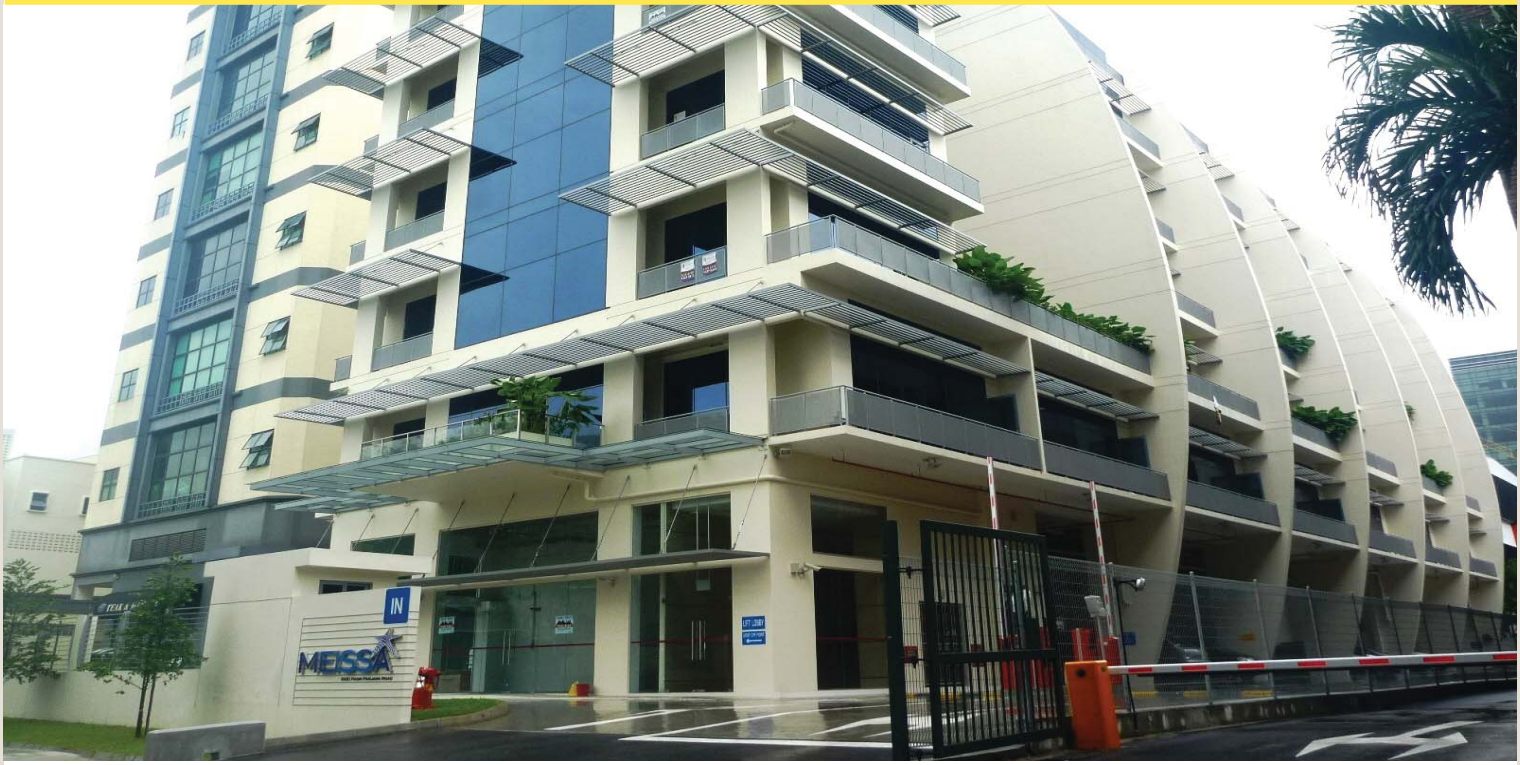


Image: Meissa

SUMMARY

The leasing market jolted back to life as soaring prices drove industrialists to rent.

- Caveat analysis of strata factories sold in 2011 and Q1/2012 show that 98.3% of sellers made a profit, 1.5% suffered losses and 0.2% broke even.
- The average profit was S$207,000 and the average loss stood at S$74,000.
- The biggest profit accrued to units which were held over a longer period and those bought during the 2009 economic downturn.
- Soaring prices and expectations of a market correction dampened industrial sales activity in Q1 this year.
- Prices of 60-year leasehold upper-storey factory units edged up 2% averaging S$407 per sq ft in Q1, the slowest gain seen since Q1/2010.
- Rents held firm at S$1.7 to S$2.1 per sq ft per month for upper-storey industrial space and S$3.6 to S$4.0 per sq ft per month for high-tech space.

"In the face of protracted uncertainties, prices could come off by some 5% this year while rents are expected to hold firm due to the changing profile of tenants towards those in higher value-added trades or quasi-showroom users."
Alan Cheong, Savills Research

MICA(P) No. 123 / 04 / 2012
Company Reg No. 198703410D

Macro-economic overview

The Purchasing Managers' Index (PMI) returned to expansion mode in February after seven months of contraction, signalling improved sentiment. Signs of recovery were also seen in the United States and other major economies across Asia. Non-oil domestic exports posted a 30% year-on-year (YoY) jump in February, a strong rebound from the 2.4% dip in January. Nevertheless, caution continues to prevail as the market observed that the Eurozone PMI contracted for a seventh consecutive month.

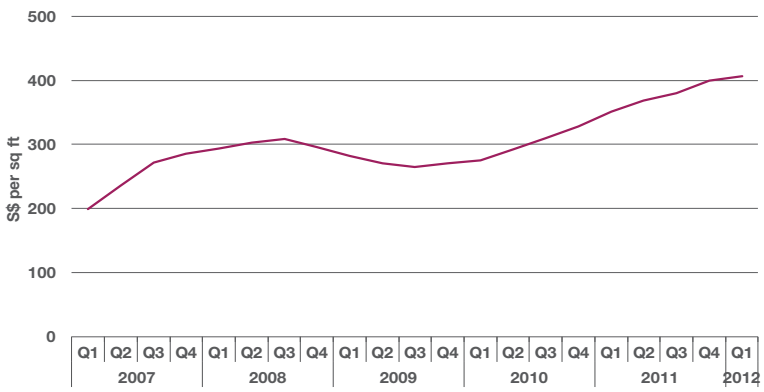
The government announced several initiatives under the Budget 2012 which will benefit SMEs. Among them, the government will increase the cash payout of firms' Productivity and Innovation Credit expenditures from 30% to 60% or up to S$100,000 per year of assessment. The subsidy rate on capability development will also be raised from 50% to 70% over the next three years under schemes managed by SPRING and IE Singapore. In addition, SMEs may claim up to S$300,000 for expenditure classified under the Renovation and Refurbishment Deduction Scheme for each three-year period.

Sales and prices

Soaring prices and expectations of a market correction dampened industrial sales activity in Q1, ending investors' euphoric anticipation of high capital appreciation and yield. Prices of 60-year leasehold upper-storey factory units tracked by Savills edged up 2% averaging S$407 per sq ft in Q1, lower than the 5% hike last quarter and the slowest gain seen since Q1/2010. Demand largely came from investors rather than industrialists and price increases were confined to well-located projects.

GRAPH 1

Average price of prime 60-year leasehold upper-storey factory units, 2007–Q1/2012



Source: Savills Research & Consultancy

Sub sale and resale transactions

After five rounds of cooling measures targeted at the residential market, industrial properties have become an alternative investment choice resulting in factory prices shooting up by more than 20% last year. According to the URA, there were a total of 10 sub sale and 1,334 resale caveats[1] for 60-year leasehold strata factory units in 2011 and Q1/2012. Analysis of preceding transactions over the past five years showed that a majority 98.3% of sellers made a profit. Only 1.5% suffered losses and 0.2% broke even[2].

The average profit was 41% or S$207,000 and the average loss was 8% or S$74,000. The biggest profit accrued to units purchased in 2007 averaging 55% or S$272,000, followed by those bought during the 2009 economic downturn, averaging 51% or S$235,000. Profits thinned for units bought in 2010 averaging 34% or S$176,000 and in 2011 averaging 25% or S$141,000, as industrial prices skyrocketed over the period.

Projects with the highest turnover were Northstar @ AMK, Wcega Plaza, Midview City, Vertex and Enterprise Hub. Among them, Enterprise Hub chalked up the heftiest profit in terms of percentage and quantum, averaging 58% or S$413,000.

1 Caveat records as at 20 March 2011
2 Results were solely based on price differences without taking into account transaction costs and other expenses

Leasing

The leasing market jolted back to life as high prices and an anticipated market correction drove industrialists to rent. Ground floor units are in strong demand and commanding rents of around S$2.2 to S$2.5 per sq ft per month. Rents of upper-storey units held firm at S$1.7 to S$2.1 per sq ft per month. Similarly, high-tech rents remained unchanged at S$3.6 to S$4.0 per sq ft per month.

TABLE 1

Upper-storey prices of major 60-year leasehold factories, Q1/2012

Location	Address	Average price (S$ per sq ft)
Primz Bizhub	Woodlands Close	378
Midview City	Sin Ming Lane	426
Northstar @ AMK	Ang Mo Kio Avenue 5	396
Enterprise Hub	Toh Guan Road East	301
Vertex	Ubi Avenue 3	485

Source: Savills Research & Consultancy

TABLE 2

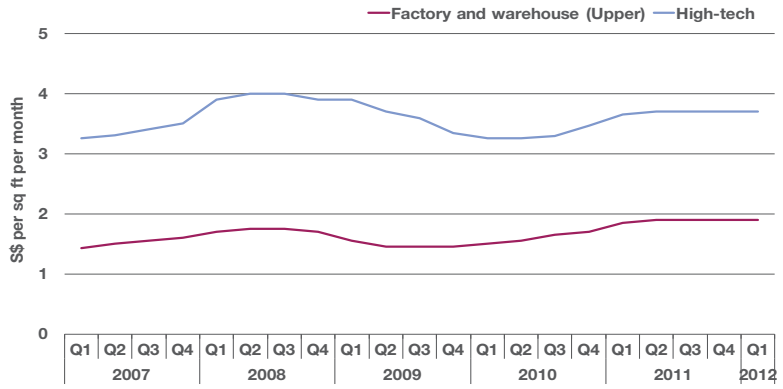
Average profit and loss for units sold, 2011–Q1/2012

Year of previous purchase	Average profit		Average loss	
	%	Quantum (S$)	%	Quantum (S$)
2007	55	272,000	1	10,000
2008	41	204,000	13	105,000
2009	51	235,000	8	85,000
2010	34	176,000	–	–
2011	25	141,000	–	–

Source: URA, Savills Research & Consultancy

GRAPH 2

Average rents for industrial properties, 2007–Q1/2012



Source: Savills Research & Consultancy

TABLE 3

Major projects in the pipeline, 2012–2015

Project name	Location	GFA (sq ft)	Estimated completion
A'Posh Bizhub	Yishun Avenue 6/Yishun Industrial Street 1/Yishun Street 23	380,000	2012
Changi City	Changi Business Park Central 1	766,000	2012
Harvest @ Woodlands	Woodlands Avenue 4	673,000	2012
North Point Bizhub	Yishun Avenue 6	383,000	2012
UE BizHub East	Changi Business Park Avenue 1	498,000	2012
Biopolis (Phase 5)	Biopolis Road	491,000	2013
Fusionopolis (Phase 3)	Fusionopolis Link	161,000	2013
North Spring Bizhub	Yishun Industrial Street 1/ Yishun Street 23	1,253,000	2013
Woodlands 11	Woodlands Close	869,000	2013
Premier @ Kaki Bukit	Kaki Bukit Avenue 4	807,000	2014
Futuris, Synthesis, Kinesis (Fusionopolis Phase 2A)	Ayer Rajah Avenue/ Fusionpolis Way	959,000	2014
Oxley Bizhub	Ubi Road 1	938,000	2015
Oxley Bizhub 2	Ubi Road 1	333,000	2015

Source: A-REIT, JTC, URA, Savills Research & Consultancy

OUTLOOK

The prospects for the market

The hike in industrial prices from the start of 2011 to Q1 this year outpaced rental increases over the same period. In the face of protracted uncertainties, we believe that prices could come off by some 5% this year. Land tenders also point to a possible market correction. All three Business 1 and 2 industrial sites sold in Q4/2011 under the government land sales programme commanded less than S$150 per sq ft per plot ratio. In comparison, six out of eight such sites awarded in the first three quarters of 2011 were sold for more than S$150 per sq ft per plot ratio. This year's land tenders saw more aggressive bidding due to the sites' prime locations at Serangoon North Avenue 4 and Sims Drive/ Aljunied Road.

Stricter government regulations to clamp down on unauthorised use of industrial properties may dampen the rental market although the impact is unlikely to be felt immediately. Meanwhile, the rental market will benefit from the current high prices of industrial properties which have resulted in occupiers preferring to rent than buy. Also, the market is seeing a shift towards tenants in higher value-added trades or quasi-showroom users. We therefore expect rents to hold firm in the near future and any downside risk is likely to be lower for rents than prices.

Please contact us for further information

Savills Singapore

Christopher J Marriott
CEO, South East Asia
+65 6415 3888
cjmarriott@savills.asia

Dominic Peters
Director, Industrial
+65 6415 3638
dpeters@savills.com.sg

Savills Research

Alan Cheong
Director, Singapore
+65 6415 3641
alan.cheong@savills.com.sg

Simon Smith
Senior Director, Asia Pacific
+852 2842 4573
ssmith@savills.com.hk