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Savills World Research
Singapore

Briefing
Industrial sector

April 2014

Image: Novelty Bizcentre, Howard Road

SUMMARY

Sales and rental activity is diverging, but prices and rental rates remain equally flat.

- Sales transactions fell 50.1% year-on-year (YoY) in Q1/2014.
- Prices remained flat for both 60-year leasehold and freehold upper-storey factory and warehouse units tracked by Savills.
- An active rental market led to a total of 1,177 deals in January and February, 16.8% higher than the same period in 2013.
- Business parks saw more leasing deals compared with Q4/2013, but this is unlikely to match the previous year's level.

"Useable industrial space remains tight, while speculative industrial space is burgeoning."
Alan Cheong, Savills Research

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Macro economic overview

The global economy continued its measured pace of recovery in the first quarter of 2014. Despite major economies in Europe finishing Q1/2014 on a weaker note, international investors have been seen returning to the eurozone, even to bailout nations such as Greece, which is experiencing an increase in investment flows of 77%. In the US, harsh winter weather conditions affected the country's recovery in the first two months of the year. Nevertheless, the rapid economic improvement seen in Q4/2013, in addition to the second straight month of US manufacturing growth, shows that recovery is on track. Over in Asia, China continues to promote quality growth, while the Japanese government reported that its economy is growing at a moderate pace with an optimistic outlook.

The manufacturing business in Singapore expanded modestly in March, as the Purchasing Managers' Index (PMI) slipped from 50.9 in the previous month to 50.8, below economists' expectations of 51.1 (a reading below 50 signifies a contraction). Non-oil domestic exports (NODX) unexpectedly fell 6.6% YoY in March. Overall, the local economy expanded by 5.1% YoY in Q1/2014. The pace of growth in GDP is, however, considered moderate due to the low base in 2013.

Sales market

Sales of industrial properties fell for the third consecutive quarter in Q1/2014. The total number of strata factory and warehouse caveats lodged in the first quarter of 2014 was only 393, a decline of 35.7% quarter-on-quarter (QoQ) and 50.1% YoY[1]. The quarterly decline is seasonal, whereas the YoY decline is largely due to the implementation of the total debt servicing ratio (TDSR) in late June 2013. We also noted that 60-year leasehold properties were more actively traded compared with 30-year leasehold and freehold units.

Prices of industrial properties tracked by Savills were relatively stagnant in Q1/2014 despite the decline in sales volumes. Prices of 60-year leasehold properties slipped 0.1% QoQ from S$477 to S$476 per sq ft, while freehold properties remained flat at S$681 per sq ft in Q1/2014. However, 30-year leasehold properties managed to climb by another 1.3% QoQ. The fact that prices did not decline in step with transaction volumes indicates a resistance from developers and owners against the impact of the surge in supply in 2014, which is expected to be 34.7 million sq ft GFA.

We observed that there are still a number of enquiries from industrialists looking for suitable properties for their business expansion, as business confidence continues to increase on the back of the growth in the global economy. However, their main concern appears to lie in the increasing availability of units with high ceilings, which are priced based on their strata areas (inclusive of void space) instead of their actual useable floor areas.

1 Singapore Institute of Surveyors and Valuers REALink caveats as of 22 April 2014.

Leasing market

Singapore's industrial leasing market started well in 2013. Although rental volumes for January and February were 43.2% short of last quarter's 2,072 deals with a month to go, the 1,177 deals recorded was 16.8% more compared with the same period in 2013. There is also the possibility that Q1/2014 may exceed 2013's first quarter record due to the expansion in manufacturing businesses in March and the positive outlook of the industry. The YoY growth of the rental market is more reliable relative to the quarterly movements for Q1/2014, as the Chinese New Year festivities tend to reduce rental volumes significantly.

Despite the healthy leasing volumes seen in the first two months of the year, rental rates maintained at the same level, as cost remains an issue for most industrial tenants. Warehouse and factory units continue to command S$2.00 per sq ft per month, while hi-tech units also maintained at S$3.00.

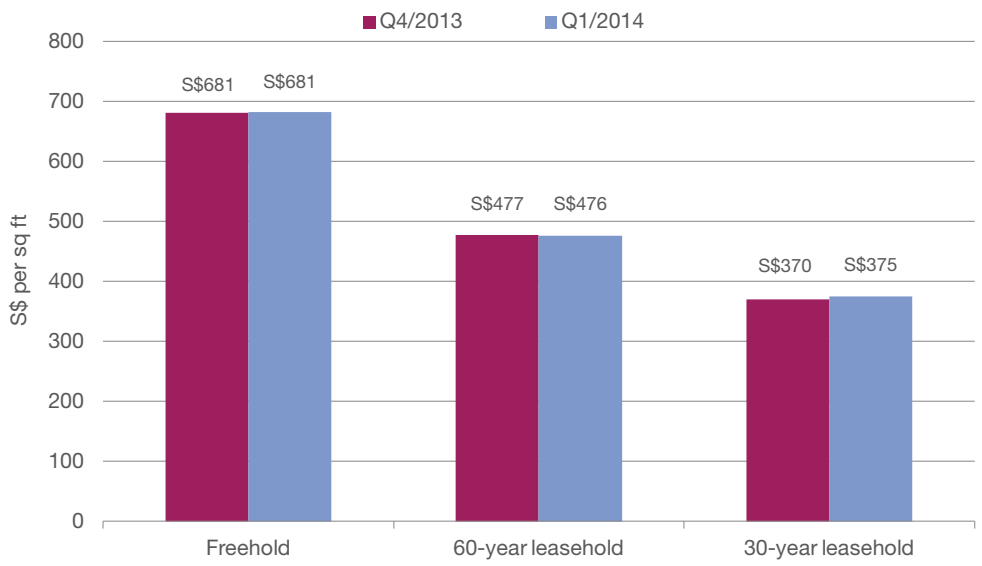
Landlords of newly completed industrial spaces are expecting higher rental rates as they have purchased these units at premium prices. However, industrialists tend to be more cost conscious and are less willing to pay a premium for new units, which require higher set-up costs compared with older units that already have these accoutrements installed by outgoing tenants. Hence, landlords of new units may need to be more flexible in their rental expectations, particularly when there is a growing pipeline supply.

Business park

The business park rental market started stronger in January and February compared with the previous quarter. The 38 deals transacted in the two months were already 2.7% more than in Q4/2013, and may likely reach 50 deals at the end of Q1/2014. However, it is unlikely to top Q1/2013's 65 leasing transactions.

GRAPH 1

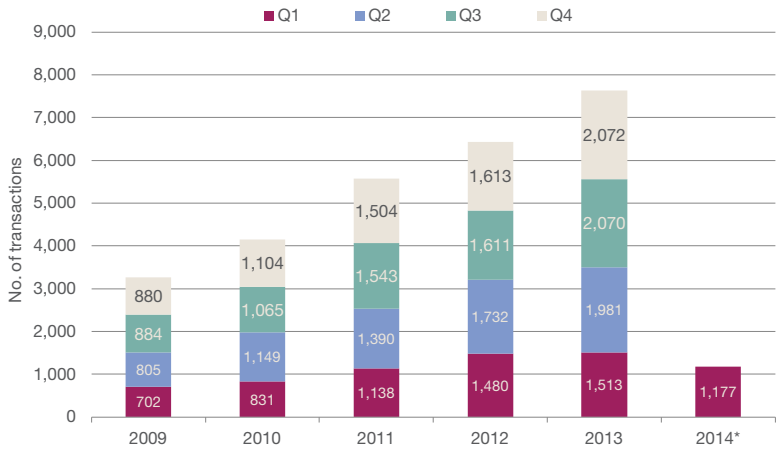
Prices of upper-storey factory and warehouse units, Q4/2013 and Q1/2014



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

GRAPH 2

Leasing volumes of factories and warehouses, 2009–Q1/2014*



Source: URA, Savills Research & Consultancy
*Q1/2014 only includes January and February figures.

TABLE 1

Business park leasing volumes and values, Q1/2014

	No. of deals	Total value (S$)	Average value per transaction (S$)	Median rent (S$ per sq ft)
Changi Business Park	7	227,107	32,444	3.91
International Business Park	11	261,528	23,775	4.23
Mapletree Business City	2	23,394	11,697	6.85
Science Park 1	5	38,431	7,686	4.15
Science Park 2	9	226,371	25,152	5.17
One-North	4	89,416	22,354	5.67

Source: URA, Savills Research & Consultancy

OUTLOOK

The prospects for the market

The future of manufacturing in Singapore is expected to remain relevant. Growth should still come from export-driven industries, as they have been gaining momentum from the gradual improvements seen in the US, Europe and Japan. However, domestic restructuring will moderate growth as seen from the manpower crunch and rising business costs in Singapore. Prices for 60-year leasehold and freehold industrial may remain flat in the second quarter, as the market stabilises due to the already high prices.

The rental market is expected to become more active in subsequent quarters, as industrialists seek production space to capitalise on the improving global economic conditions. However, rental rates are less likely to increase, as supply is burgeoning and businesses are still in the process of adapting to labour and cost issues. Despite this, factories with large useable space for operations would command a premium, as these units have become less common in the market today.

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