Briefing
Industrial sector

May 2015

Image: BreadTalk IHQ, Tai Seng

SUMMARY

The presence of next-generation technology companies in industrial and business park space is finally upon us in 2015.

- Continued subdued demand for industrial properties with sales volume falling 42.4% quarter-on-quarter (QoQ) and 41.2% year-on-year (YoY). Only 307 caveats were lodged in Q1/2015.
- In Q1/2015, prices of upper-storey factory and warehouse units in the Savills basket slipped 3.2% QoQ to S$463 per sq ft for 60-year leasehold and 2.3% to S$658 per sq ft for freehold, while 30-year leasehold units inched up 0.6% QoQ from S$375 to S$377 per sq ft.
- Despite market pessimism, leasing volumes increased 6.6% to 1,868 deals in Q1/2015 from 1,752 deals in the same period last year. The slightly better YoY performance may be due to lower rental rates in a market that has turned in favour of the tenant as rents suffered a steep 5.0% QoQ decline in Q1/2015.
- There has been a rising demand for business parks from biomedical as well as Technology, Media and Telecommunications (TMT) industries.
- The industrial leasing and sales market is expected to stagnate further as the manufacturing outlook continues to be pessimistic. However, the accumulation of additional inventories as well as focus on growth in the logistics sector may bolster the demand for warehouse space.

"The stagnation felt by traditional technology companies, in contrast to the rise of social media and new paradigm manufacturing firms, is beginning to be felt in the demand for industrial space, leaving perhaps only those buildings that meet the sunrise industries spatial demands thriving in the foreseeable future."
Alan Cheong, Savills Research

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Macro economic overview

The global economic outlook has been bleak, with the US as the only bright spot enjoying stronger gross domestic product (GDP) growth at an annualised 2.2% in Q4/2014. However, its weaker-than-expected employment data in March showed that its recovery has yet to take root. Other countries such as China, Japan and the Eurozone are similarly experiencing slower economic growth with a risk of deflation. In a bid to boost their economies these countries are lowering interest rates, resulting in a currency war that could also hurt Singapore's exports. Consequently, a slowdown in Singapore's manufacturing sector was inevitable.

The fallout from the rising USD against SGD resulted in a sharp spike in the three-month SIBOR rate from 0.46% on 31 December 2014 to 1.01% on 31 March 2015. As the common property loan package is usually benchmarked to the three-month SIBOR, the rise in interest rates will affect buying sentiments.

From a domestic angle, Singapore's manufacturing sector has also been affected by its economic restructuring efforts and increasing labour costs. Both internal and external economic issues have caused the overall Purchasing Manager's Index (PMI) to fall to 49.6 in March (a reading below 50 indicates contraction), declining for the fourth consecutive month. On a brighter note, the electronics PMI fared slightly better at 50.1 and non-oil domestic exports (NODX) increased 4.3% month-on-month (MoM) in February. Advance estimates show that Singapore's GDP grew 2.1% YoY in Q1/2015, the same rate achieved in Q4/2014.

Sales market

For the quarter in review, interest in industrial properties was tepid. The negative sentiment stems from Singapore's poor manufacturing performance and rising labour costs, uncertainty as to the timing of the Fed's interest rate hike and weak commodity prices. Buyers' caution is even more evident this quarter, with only 307 strata factory and warehouse caveats lodged, a drastic drop of 42.4% QoQ and 41.2% YoY. As businesses curtail expansion plans, buying demand for industrial spaces stagnated. However, there was more sales activity for 60-year leasehold properties than for the 30-year leasehold and freehold units.

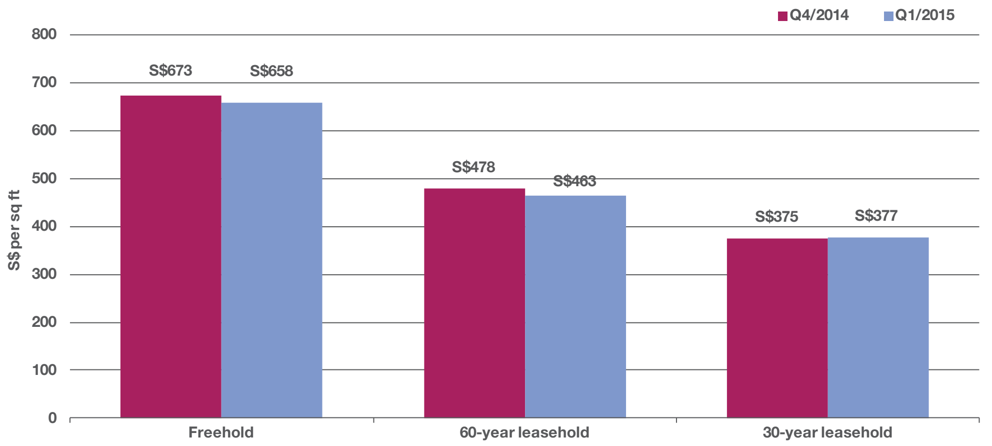
In Q1/2015, prices of upper-storey factory and warehouse units in the Savills basket slipped 3.2% QoQ from S$478 to S$463 per sq ft for 60-year leasehold, and 2.3% from S$673 to S$658 per sq ft for freehold units. 30-year leasehold units on the other hand inched up 0.6% QoQ from S$375 to S$377 per sq ft. Lean transaction volumes in the past few quarters may have resulted in inconsistent price trends.

Leasing market

Despite market pessimism, leasing volumes increased 6.6% to 1,868 deals in Q1/2015 from 1,752 deals in the same period last year. However, compared with the preceding quarter's 2,071 deals, it is 9.8% short. The slight rise in leasing deals YoY may have come from leasing activity of the newly-completed projects as well as pre-commitment leases in many other upcoming projects. The slew of pipeline supply in addition to current available stock has created an increasingly competitive leasing market where landlords find themselves having to lower their rental expectations. The increase in availability of leasing options has turned the market in favour of the tenant as rents suffered a steep decline of 5.0% QoQ from S$1.95 to S$1.85 per sq ft per month.

GRAPH 1

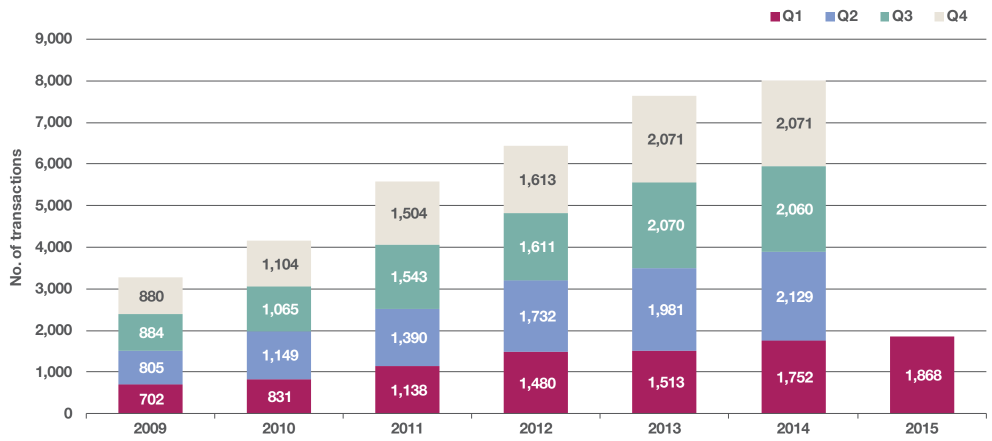
Prices of upper-storey factory and warehouse units, Q4/2014 and Q1/2015



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

GRAPH 2

Leasing volumes of factories and warehouses, 2009 – Q1/2015



Source: URA, Savills Research & Consultancy

However, rents of high-tech space continued to hold at S$3.00 per sq ft per month due to increasing demand from firms in the media and design industries.

Business Park

59 leasing deals in business parks were done in the reviewed quarter. Despite a decline of 11.9% from the preceding quarter, the level of demand remained steady. The vacancy rate for business parks island-wide was down 3.2 percentage points (ppts) to 17.0% in Q1/2014. The preceding quarter's high vacancy was attributed to new supply of about 1.56 million sq ft from completed developments in Changi Business Park, Science Park and One-North. Therefore, the drop in vacancy rate represents a healthy take-up of the new business park space.

There has been a rising demand for business parks from the biomedical as well as the TMT industries. For example, tech giants such as Google and Microsoft were reported to be moving to the upcoming Mapletree Business City II, which offers rents lower than their current office headquarters in the CBD and would provide a more conducive environment for R&D. Increasingly, next-generation tech firms believe that business parks, with their cloistered hub and "green" environs, engender creativity and innovation. With Singapore focusing its economic restructuring efforts on expanding the tech and innovation industry, the upcoming supply of 2.17 million sq ft of business park space to be completed in 2015 and 2.11 million sq ft in 2016 would be ready to absorb the industry's spatial demand.

TABLE 1

Business park leasing volumes and values, Q1/2015

	No. of deals	Total value (S$)	Average value per transaction (S$)	Median rent (S$ per sq ft)
Changi Business Park	6	172,239	28,707	4.08
International Business Park	13	199,871	15,375	3.95
Mapletree Business City	1	87,223	87,223	5.51
Science Park 1	10	111,773	11,177	3.81
Science Park 2	17	356,495	20,970	3.95
One-North	12	289,326	24,111	5.00

Source: URA, Savills Research & Consultancy

Outlook

16.99 million sq ft of factory space and 6.44 million sq ft of warehouse space will come on stream during the rest of 2015. At the five-year historical average annual absorption of 7.85 million sq ft and 3.32 million sq ft respectively, inertia will persist in both the leasing and sales markets as supply outstrips demand on the back of a pessimistic manufacturing outlook. Singapore's manufacturing outlook may be further clouded by China's slowing economy.

However, as manufacturers' inventories build and with the logistics sector still bearing out well, demand for warehouse space is expected to grow.

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