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**Savills World Research**
Singapore

# Briefing
# **Industrial sector**

May 2016

Image: Mapletree Business City, Pasir Panjang Road

## SUMMARY


Industrialists continue to wait for business conditions to improve.

- 236 caveats for strata factories and warehouses were lodged in Q1/2016, a 29.1% decline from the previous quarter.

- Prices of freehold and 30-year leasehold properties fell by 1.0% and 1.3% quarter-on-quarter (QoQ) respectively to S$689 per sq ft and S$384 per sq ft, while 60-year leasehold properties remained flat at S$469 per sq ft.

- The number of leases signed in Q1/2016 fell 8.0% QoQ from the preceding quarter to 1,768 – the third consecutive quarterly decline.

- In Q1/2016, factory and warehouse rents declined by 5.6% QoQ to S$1.70 per sq ft per month, extending the 2.7% QoQ contraction from the previous quarter. The decline now has spread to the previously resilient high-tech property sector with an 8.5% QoQ fall in rents to S$ 2.70 per sq ft per month.

- Bracing themselves for further economic slowing, most manufacturers will continue to hold back on expansion plans or purchases of industrial premises.


"The industrial market is expected to soften further over 2016 when business conditions are expected to be even tougher."
Alan Cheong, Savills Research


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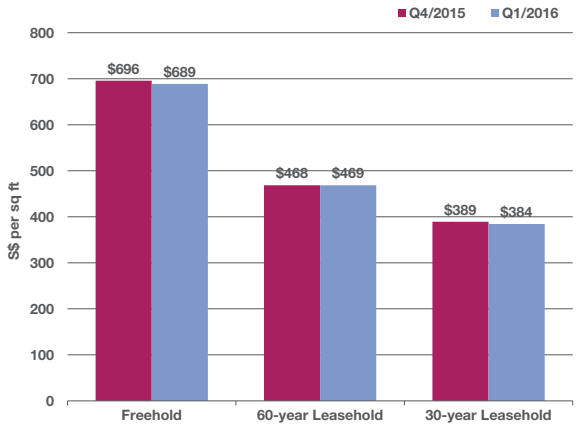
## Macro economy

Global economies entered 2016 with trepidation as many remain mired in slow growth. For Japan and the US, weak overseas demand and the relative strength of their domestic currencies continue to delay economic recovery. While the threat of Grexit has receded, Brexit now looms over the Eurozone. Stresses in the developing world show no sign of abating as contractions in the value of their exports alongside rising anti-trade sentiment in China are slowing down trade momentum. Beyond the numbers, noneconomic shocks (geopolitical conflicts, the refugee crisis, political discord and terrorism) pose significant threats to the already fragile global economy.

GRAPH 1

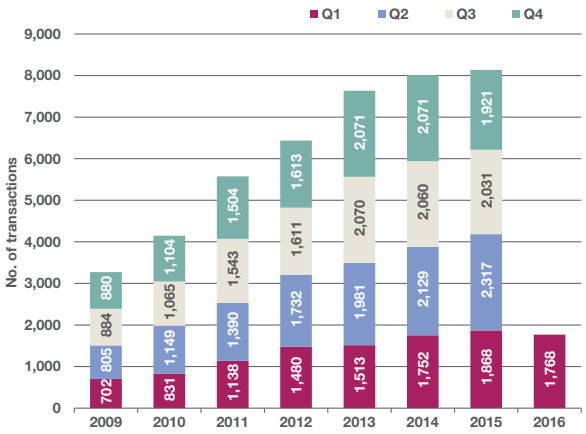
### Prices of upper-storey factory and warehouse units, Q4/2015 and Q1/2016




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

GRAPH 2

### Leasing volumes of factories and warehouses, 2009–Q1/2016




Source: URA, Savills Research & Consultancy

Even as Singapore regains some shine amid the stormy global economy, economic activity here can hardly be called robust. In March, although Singapore's Purchasing Managers' Index (PMI) rose by 0.9 percentage points (ppt) month-on-month (MoM) to 49.4, nevertheless, it remained stuck in a contraction phase for the ninth consecutive month (a reading below 50 indicates a contraction). In the same month, non-oil domestic exports (NODX) plummeted 15.6% year-on-year (YoY), caused by weak demand from China and partly the high base in 2014. While advanced estimates of Singapore's gross domestic product showed a 1.8% YoY rise in Q1/2016, growth was stagnant from the previous quarter.

## Sales market

Alongside subdued manufacturing activity, the demand for industrial properties has also fallen. The number of caveats lodged for strata factories and warehouses in Q1/2016 fell below the 300 level with 236[1] transactions – akin to numbers recorded during the late 2008 to early 2009 recession. On a quarterly basis, this represents a 29.1% fall from 333 transactions in Q4/2015.

However, on the pricing front, things are rather stable. In Q1/2016, upper-storey factory and warehouse units in the Savills basket showed only marginal price movements. Freehold and 30-year leasehold properties decreased 1.0% and 1.3% QoQ respectively to S$689 per sq ft and S$384 per sq ft, while 60-year leasehold properties stayed flat at S$469 per sq ft. This is an indication that despite the increasing supply of industrial properties and weak buyer interest, landlords are not budging much due to their strong holding power

## Leasing market

More often than not, because of the Chinese New Year period, the industrial leasing market gets off to relatively quiet start to the year. Unlike prices, the rental market is nonetheless showing signs of a greater negative reaction to the slowing economy. Rental volume in Q1/2016 fell 8.0% QoQ from the preceding quarter to 1,768 – the third consecutive quarterly decline. On a YoY basis, leasing volume is down 5.4% from Q1/2015, which against historical Q1 figures, is the first negative growth since 2009.

In Q1/2016, factory and warehouse rents declined 5.6% QoQ to S$1.70 per sq ft per month, extending the 2.7% QoQ contraction from the previous quarter. Even the previously resilient high-tech property sub-sector is being affected with rents falling 8.5% QoQ to S$2.70 per sq ft per month. With a slew of pipeline supply coming into the market, the leasing market is becoming increasingly competitive. From feedback given by our leasing agents, even if landlords lower their rental expectations, industrial properties are still not moving because of the tepid manufacturing environment, particularly the oil, gas and marine sectors.

## Business Parks

There were 38 business park leases inked in Q1/2016, up from 32 in the previous quarter. International Business Park was most active, with 14 deals and a new large tenant moving in – LinkedIn. The US$80.0 million, 23,500-sq ft facility is LinkedIn's first data centre outside the US. Despite the improvement in demand, island-wide vacancy of business park space rose by 2.4 ppts to 18.3% in this reviewed quarter.

Apart from the provision of infrastructure, landlords are adopting new strategies which compliment the spirit of research and innovation inherent in business parks. In March, Timbre+ at the JTC Launchpad @ one-north opened its doors to the area's start-up community. At this 24,000-sq ft food centre, stallholders operate out of repurposed containers, food-trucks or "incubator" spaces, which are set aside for first-time entrepreneurs. Q1/2016 also marked the completion of Ascent at Science Park 1 – a 7-storey business park building with a single-storey retail block. Meanwhile, asset enhancement works, as part of its rejuvenation and rebranding project, are still on-going at Science Park 1 & 2.

1 Singapore Institute of Surveyors and Valuers REALink caveats as of 19 May 2016

TABLE 1

## Business park leasing volumes and values, Q1/2016

| | No. of deals | Total value (S$) | Average value per transaction (S$) | Median rent (S$ per sq ft) |
|---|---|---|---|---|
| Changi Business Park | 6 | 342,695 | 57,116 | 4.20 |
| International Business Park | 14 | 201,814 | 14,415 | 4.40 |
| Science Park 1 | 6 | 32,227 | 5,371 | 3.84 |
| Science Park 2 | 5 | 115,183 | 23,037 | 3.68 |
| One-north | 7 | 507,089 | 72,441 | 5.20 |

Source: URA, Savills Research & Consultancy

# OUTLOOK

## The prospects for the market

With economic uncertainties confronting the region, the near term future of Singapore's industrial market looks challenging. The new norm for oil prices, the slowing of global trade and the rapid pace of technological changes in the business-to-business, business-to-consumer and consumer-to-consumer markets are all having an impact on the demand for industrial space here. In the short term, given the high export content of Singapore's manufacturing industry, growth in the sector may be crippled further by weak economic conditions in Singapore's export markets and tighter controls on foreign workers.

Bracing themselves for a further slowdown, manufacturers may choose to hold back on their export sales. This offers a silver lining to the warehouse rental market, which may become more active in the subsequent quarters as manufacturers seek storage space for growing inventories. However, rental rates are unlikely to increase as the supply of warehouse space is expected to increase by 14.6 million sq ft between Q2/2016 and end-2017 alone.

In the final analysis, industrialists will have no choice but to wait for business conditions to improve. The positive thing in all this is that many who have managed to soldier on until now will have made contingency plans to survive 2016 when GDP growth is projected to slow further to 1.8%.

# Please contact us for further information

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