Briefing
Industrial sector

May 2017

Image: Fusionopolis, 1 Fusionopolis Pl

SUMMARY

There is recovery in the manufacturing sector but it is helterskelter and not broad-based enough to reverse rental declines in the short term.

- The Singapore economy expanded 2.7% year-on-year (YoY) in Q1/2017, easing from the 2.9% YoY growth in the preceding quarter.

- In Q1/2017, the price of freehold and 30-year leasehold industrial units posted lower declines of 1.3% and 0.2% YoY to S$656.16 per sq ft and S$357.39 per sq ft respectively. For 60-year leasehold industrial units, after recording a price increase of 2.1% YoY last quarter, fell 1.9% YoY to S$445.33 per sq ft in Q1/2017.

- Leasing activity in the industrial market slipped for three quarters in a row by 8.6% quarter-on-quarter (QoQ) to 1,794 in Q1/2017.

- The factory and warehouse sector posted rental declines of 20.6% YoY and 3.6% QoQ in the reviewed quarter to S$1.35 per sq ft per month.

- For business parks, given the improved overall occupancy level and lack of new supply, the monthly average rent showed resilience, holding firm at S$4.05 per sq ft in Q1/2017.

- Given the spotty recovery in the manufacturing sector, continued softness in the leasing market is expected and we revise our rental projections from -5% to -10% YoY for 2017.

> "A tremendous amount of real estate from the oil, gas and marine industries lies underutilised and non-mainstream industrial users are needed to fill them."
> Alan Cheong, Savills Research

MCI (P) 110/03/2017
Company Reg No. 198703410D

Macro economy

According to the latest Economic Survey of Singapore released by the Ministry of Trade and Industry (MTI), the Singapore economy expanded 2.7% YoY in Q1/2017, slightly down from the 2.9% YoY growth recorded in the preceding quarter. Growth was largely supported by the manufacturing sector which expanded by 8.0% YoY in the first quarter. The healthy output was led by a more positive global outlook and robust demand for electronics and precision-engineering clusters, which outweighed the dip in output in biomedical manufacturing, transport engineering and general manufacturing clusters.

The Singapore Purchasing Managers' Index (PMI), an early indicator of manufacturing economy, by March had expanded for eight straight months. The expansion was attributed to higher new orders and new exports, factory output, as well as inventory and employment. Even though the April reading of PMI had a marginal dip of 0.1 percentage points (ppt) month-on-month (MoM) to 51.1 due to declining rates of expansion in inventory, new orders, new exports, and employment, the eight months of sustained growth suggests that the manufacturing sector has some momentum built into its growth.

In March, Singapore's non-oil domestic exports (NODX) grew for the 16.5% YoY in the fifth consecutive month of expansion. For January and February this measure expanded 8.6% and 21.2% YoY respectively. The rise was led by the rising exports in both electronic and non-electronic items.

Sales market

Extending the decline in sales volume for the past three quarters, transactions in the industrial property market continued to fall, dropping by 31.4% QoQ in Q1/2017. This marks the lowest sales record in the past ten years with 194[1] caveats lodged for strata factories and warehouses, 20.8% YoY fewer than the 245 deals registered in Q1/2016.

Although the industrial sales volume hit a ten-year low in Q1/2017, the total value of transactions was still above the record low of S$0.3 billion in 2016. According to the Urban Redevelopment Authority (URA), the total value of transactions in Q1/2017 exceeded S$0.5 billion. While the transacted value of factories in Q1/2017 (S$556.7 million) almost halved the value transacted in Q4/2016 (S$964.4 million), the value of transactions for warehouses in Q1/2017 (S$30.4 million) more than tripled the total value transacted in Q4/2016 (S$9.1 million).

The uptick in warehouse sales was led by the land resale of part of a four-storey warehouse at Old Toh Tuck Road. In February 2017, MSS Toh Tuck Pte Ltd acquired the 30+30-year leasehold property from Mapletree Logistics Trust for S$14.25 million, accounting for almost half of the total value of warehouse transactions for the quarter. In addition, a 3,488-sq ft freehold strata unit on the second level of Joo Seng Warehouse at Upper Aljunied Link was sold for S$2.1 million in March 2017. In the same month, two 60-year leasehold adjoining strata units (9,397 sq ft each) of Intrepid Warehouse Complex at Ubi Avenue 4 were also sold for S$2.0 million each.

Nearly 35.0% of the total value of factory transactions was accounted for by a land sale located within a government-approved food zone, currently housing a cold-store logistics facility. The seller, Warehouse Logistics Net Asia (WLNA), sold it for S$193.8 million to a fund managed by US-based PGIM Real Estate, and will lease back the property for 10 years. There were also four land-resale transactions each with a deal size of S$20.0 million or above. Of these, the highest price was S$54.2 million for Tech-link Districenter, a 30+30-year leasehold factory at Tuas View Lane.

Although the total value of sales transactions was higher than a year ago, it should be noted that the increase was boosted by these major sales. In line with the plunging sales volume, upper-storey factory and warehouse units in the Savills basket recorded a price decline across all tenure in the first quarter. Despite posting a slower negative growth of 1.3% and 0.2% YoY to S$656.16 per sq ft and S$357.39 per sq ft respectively in Q1/2017, prices of freehold and 30-year leasehold industrial units plummeted to their lowest historical levels since 2016 and 2014. Even 60-year leasehold industrial units, which saw a 2.1% YoY growth last quarter, fell 1.9% YoY to S$445.33 per sq ft in Q1/2017.

Leasing market

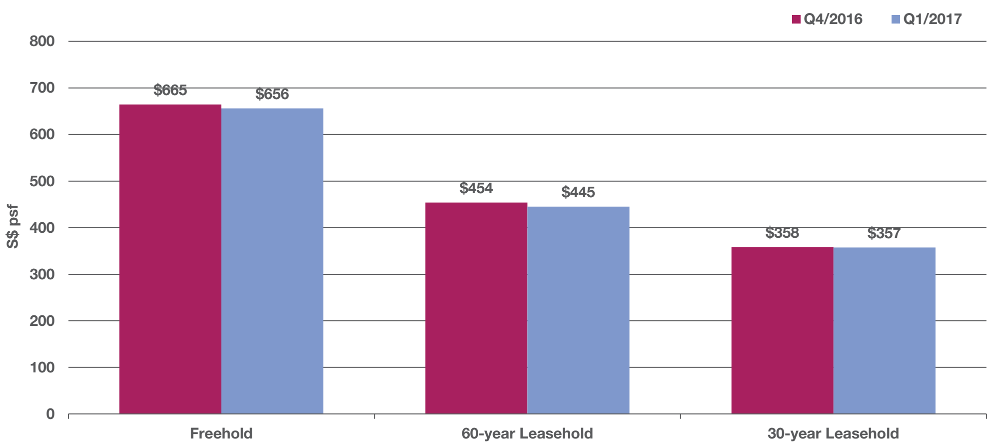
Leasing activity in the industrial market had been slipping for three consecutive quarters and fell by 8.6% QoQ to 1,794[2] in Q1/2017. The healthy expansion of Singapore's economy and manufacturing sector

1 Singapore Institute of Surveyors and Valuers REALink caveats as of 12 May 2017.

2 Lease volume excludes business parks.

GRAPH 1

Prices of upper-storey factory and warehouse units, Q4/2016 and Q1/2017



Source: Urban Redevelopment Authority (URA), Savills Research & Consultancy did not contemporaneously translate into greater demand of factory and warehouse space. Industrialists are still cautious about getting new space amid the uncertain economy and business environment. The first quarter's leasing numbers was only marginally above the rental volume of 1,768 a year ago. The low number of leases signed could also be cyclical in nature as leases signed in the first quarter of the last few years have been relatively fewer.

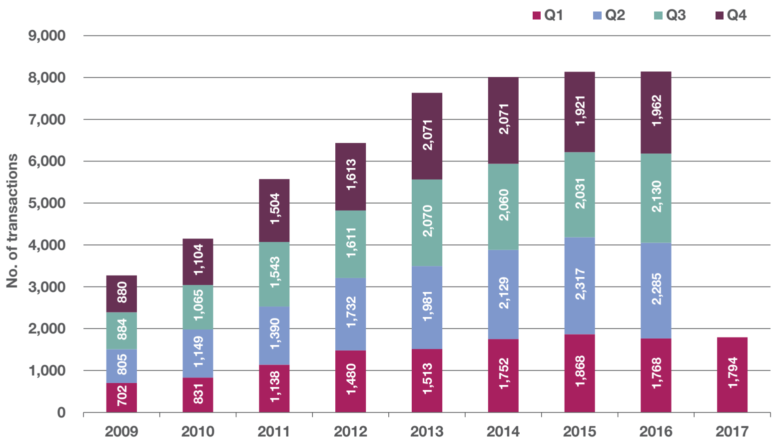
In Q1/2017, the net new supply of 2.7 million sq ft outpaced demand growth of 1.3 million sq ft as net demand plunged from 4.8 million sq ft in Q4/2016. The abundant supply of factory and warehouse space available continued to exert downward pressure on rents, bringing the average prime monthly rent down for all sectors in Q1/2017. The factory and warehouse sector[3] posted slower rental declines of 20.6% YoY and 3.6% QoQ in the reviewed quarter to S$1.35 per sq ft per month.

After two years of YoY decrease in rents, high-tech properties seem to be regaining their footing with a slower rental decline of 1.1% YoY and 0.7% QoQ to S$2.70 per sq ft per month. Although rent has reached a new record low, the rate of decrease was the slowest throughout the past two years.

3 Prime rent for factory and warehouse units more than 10,000 sq ft on the ground floor.

GRAPH 2

Leasing volumes of factories and warehouses, 2009–Q1/2017



Source: URA, Savills Research & Consultancy

Business Parks

In Q1/2017, the number of leases signed for business park space eased 33.3% QoQ to 32, the same as the lowest recorded in Q4/2015. Notwithstanding the drop in number of deals, demand for business park space improved 1.0 ppt QoQ to an island-wide vacancy of 16.0% in Q1/2017.

The International Business Park (IBP) continued to lead with 13 deals in Q1/2017, but those were less than half of the 29 leases signed in Q4/2016. As a result, the vacancy rate of IBP in Q1/2017 worsened 0.7 ppts to 17.5%, reaching the highest level since 2013. While others such as One-North and Changi Business Park (CBP) also saw a rise in vacancies, the island-wide vacancy level was supported by the rising of demand for business park space in Mapletree Business City (MBC), Science Park and Clean Tech.

Given improved overall occupancy levels and the lack of new business park supply, the monthly average rent for business park space showed some resilience and held firm at S$4.05 per sq ft in Q1/2017.

TABLE 1

Business park leasing volumes and values, Q1/2017

	No. of deals	Total value (S$)	Average value per transaction (S$)	Median rent (S$ per sq ft)
Technopark @ Chai Chee	7	262,754	37,536	2.76
Changi Business Park	4	51,823	12,956	3.97
International Business Park	13	178,657	13,742	4.20
Science Park I	3	22,230	7,410	3.80
Science Park II	1	51,828	51,828	4.30
One-north	4	73,243	18,310	5.22

Source: URA, Savills Research & Consultancy

OUTLOOK

The prospects for the market

The manufacturing sector has been performing in line with the global economic recovery brought about by a surge in global demand. However, the turnaround has been uneven and limited to certain sectors only, while growth in other sectors dependent on local demand remained lacklustre.

The MTI will maintain its forecast of Singapore's 2017 economic growth at 1.0% to 3.0%, with a likelihood of settlement above 2.0%. The Economic Development Board (EDB) expects improvement in the manufacturing sector's business environment until September 2017. Even so, almost 21.9 million of new industrial space is coming on stream in the next three quarters of this year. This by far exceeds the past five-year average annual net supply of 17.0 million sq ft.

Consequentially, the industrial market possibly will face further downside pressures in terms of occupancy levels, prices and rents. As the malaise afflicting the oil, gas and marine sector does not appear to have lifted, a substantial amount of space remains vacant by tenants from these industries. Unless alternative users or use are found for these idle premises, a large pool of real estate assets will have nil return. Creativity may be needed to get these space retaken. However, any non-mainstream industrial/ warehousing use of these vacant industrial and warehouse spaces may run into policy roadblocks. Therefore, as manufacturers remain rather cautious about business prospects, there should be continued softness in the leasing market. We have revised down our forecast for industrial and warehouse rents. Instead of the 5.0% decline this year, we now expect rents to fall 10.0% YoY in 2017 and another 3.0% to 5.0% in 2018.

Period	YoY % change industrial and warehouse rents
Q4/2017F	-10.0%
Q4/2018F	-3.0% to -5.0%

Please contact us for further information

Savills Singapore

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

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

Savills Research

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

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

Savills plc
Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 700 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.