MARKET IN MINUTES
Savills Research

Industrial

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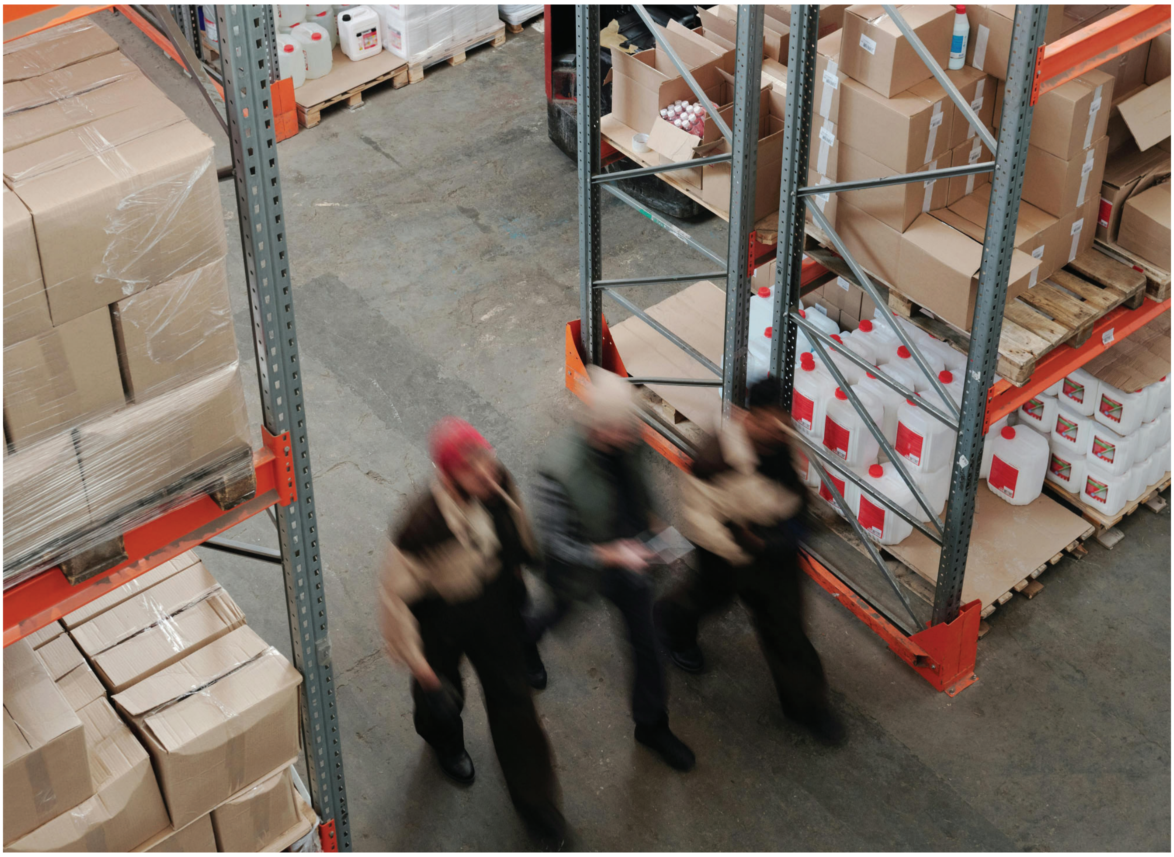

Expect resilience but slower growth

Leasing and strata sales hit a post-2020 low.

- The overall industrial leasing volume declined 7.7% year-on-year (YoY) to 2,866 leases transacted in Q1, the lowest since 2020.
- Savills' basket of monthly prime warehouse and logistics rents rose 2.0% quarter-on-quarter (QoQ) to S$1.68 per sq ft, while multiple-user factory rents saw an uptick of 0.5% QoQ to S$2.23 per sq ft in Q1.
- Strata industrial sales activity remained lacklustre in Q1, falling at a faster pace of 21.8% QoQ to 319 transactions.
- From Savills' basket of industrial properties, prices for freehold and 60-year leasehold industrial properties increased at a faster rate at 2.2% to S$826 per sq ft and 1.6% QoQ to S$512 per sq ft respectively, while for 30-year leasehold industrial properties, values inched up 0.3% QoQ to S$324 per sq ft in Q1.
- Savills' prime business park monthly rents increased by 3.7% QoQ to S$6.11 per sq ft in Q1, while standard business park monthly rents saw a slower growth of 0.8% QoQ to S$4.06 per sq ft in Q1.
- According to Savills' high-spec industrial basket, the average monthly rent increased 1.7% QoQ to S$3.96 per sq ft in Q1.
- Factory space renting for S$1.90 per sq ft pm has become the backstop for SMEs who are still not giving up the fight in this difficult environment. Over time, if business conditions do not improve, we believe that rents may ultimately have to reflect that. For now, we are maintaining our rental change forecast for multiple-user factories at 0% YoY while for warehouses we expect rents to rise modestly between 0% and 3%.

> "Small and Medium Sized Enterprises (SMEs) are rationalising their space requirements and taking up less space, driving up per sq ft factory rents."

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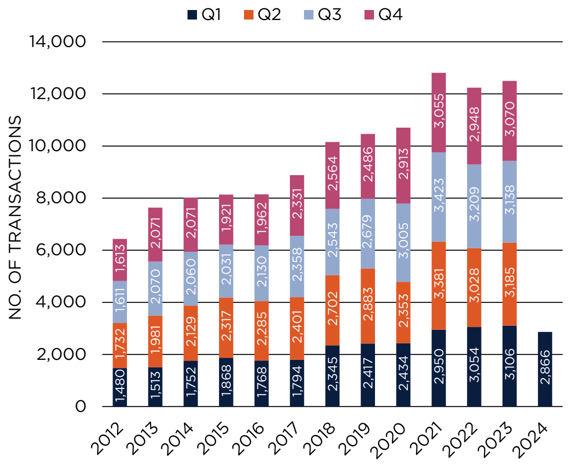
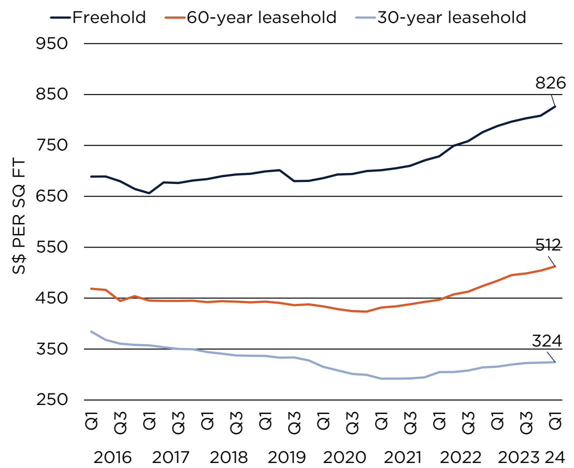
GRAPH 1: Leasing Volumes of Factories and Warehouses, 2012 to Q1/2024



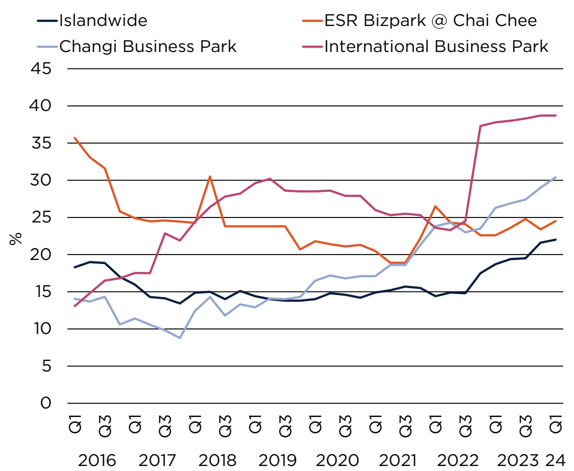
Source JTC, Savills Research & Consultancy

GRAPH 2: Prices of Upper-Storey Strata Factory and Warehouse Units, Q1/2016 to Q1/2024



Source JTC, Savills Research & Consultancy

GRAPH 3: Business Park Space Vacancy Rates, Q1/2016 to Q1/2024



Source JTC, Savills Research & Consultancy

MACROECONOMIC OVERVIEW

According to advance estimates from the Ministry of Trade and Industry (MTI), Singapore's economy expanded at a faster pace of 2.7% YoY in Q1/2024, compared with the 2.2% YoY growth in Q4/2023. While manufacturing growth moderated from 1.4% YoY in the previous quarter to 0.8% YoY in Q1/2024, overall services growth improved from 2% YoY to 1.7% YoY in Q1/2024.

Despite ongoing uncertainties resulting from geopolitical conflicts and an elevated interest rate environment in most major economies, manufacturing sentiments improved in Q1 with the Singapore's purchasing managers' index (PMI) in March reaching 50.7 – the highest reading since December 2021. On the other hand, Singapore's key exports shrank further in Q1 and posted a steeper contraction in March. Non-oil domestic exports (NODX) shrank 20.7% YoY in March. It was largely attributed to continued weakness in non-electronics shipments, which include pharmaceutical shipments.

RENTAL MARKET

Industrial leasing momentum has slowed on the back of weak global trade demand. The overall industrial leasing volume[1] registered a decline of 7.7% YoY to 2,866 tenancies in Q1, hitting the lowest level since 2020. Leasing volume tapered off across all segments, especially for single-user factory space (-11.3% YoY). While demand for factory space softened as some firms could have curtailed expansion plans as part of their cost saving strategies, the momentum in the logistics leasing market also moderated amid weaker ecommerce demand and international trade. Furthermore, the gap between landlord and tenant expectations on rents may have widened, especially for more recent completions which incurred higher development costs. Besides the rental increase, the increase in the total value of rental transactions (+3.0% YoY) could be due to growing interest in larger premises, especially for multiple-user factory and warehouse spaces.

In terms of vacancy, single-user factory vacancy inched up again by 0.2 of a percentage point (ppt) QoQ to a new record high at 12.2% in Q1. While vacancy for multiple-user factories remained flat at 9.5% in Q1, those for warehouses rose to 8.9% (+0.5 of a ppt QoQ) as supply outweighed demand.

The index of general industrial rents tracked by JTC showed that industrial rents extended growth into 2024, rising by 1.7% QoQ again in Q1. While rents for the single-user factory and warehouse segments recorded a faster pace of growth at 2.1% QoQ and 2.0% QoQ respectively, those for the multiple-user factory segment rose at a moderated pace of 1.3% QoQ. Meanwhile, Savills' monthly prime industrial rents reached a record high since our data was constituted. While warehouse and logistics property[2] rents rose 2.0% QoQ to S$1.68 per sq ft, multiple-user factory[3] rents saw an uptick of 0.5% QoQ to S$2.23 per sq ft in Q1.

SALES MARKET

Strata industrial sales activity[4] remained lacklustre in Q1, falling at a faster pace of 21.8% QoQ to 319 transactions. This marked the lowest point since 2020 when the market was hit by the pandemic-led disruptions. Despite the muted appetite in the strata sales market, there is a healthy interest for industrial properties among investors and end-users, which in turn helped to improve the overall market sentiments.

In Q1/2024, median prices for multiple-user factory and warehouse increased by 9.1% and 6.3% QoQ respectively, reversing two quarters of decline. This is in line with the 0.5% QoQ increase in the JTC price index for multiple-user factory in the same quarter. Savills' basket of industrial properties also showed prices rising across all tenure types in Q1. Prices for freehold and 60-year leasehold industrial properties increased at a faster rate at 2.2% to S$826 per sq ft and 1.6% QoQ to S$512 per sq ft respectively, while that for 30-year leasehold industrial properties inched up 0.3% QoQ to S$324 per sq ft in Q1.

BUSINESS PARK AND HIGH-SPEC INDUSTRIAL

The islandwide vacancy level for business parks rose again by 0.4 of a ppt QoQ to 22.0% in Q1, reaching the highest since 2011. This was mainly due to softer demand in the East Planning Region[5], where vacancy level in Q1 went up by 1.3 ppt QoQ to 29.4%, hitting a record high since 2009. Business parks in suburban areas remained under pressure as some tenants rightsized their backend operations and more tech companies kept in pace with hybrid work adoption. Although business parks in the Central Planning Region[6] showed greater resiliency, nevertheless, the vacancy level also worsened to 11.6% (+0.6 of a ppt QoQ) as the take-up rate remained weak. Meanwhile, a pick-up in demand in Clean Tech Park ended a two-year increase in vacancy level in the West Planning Region, reducing it by 1.1 ppt QoQ to 41.1% in Q1.

Nonetheless, business park rents in Q1 were lifted by newer developments. With the index of business park rents tracked

1 Based on JTC's rental data (excluding business park spaces, only comprises single- and multiple-user factory as well as warehouse spaces).

2 Based on Savills basket of private multiple-user warehouse properties which ranges from 2,000 sq ft to 80,000 sq ft in size, with an average monthly asking rent of at least S$1.30 per sq ft.

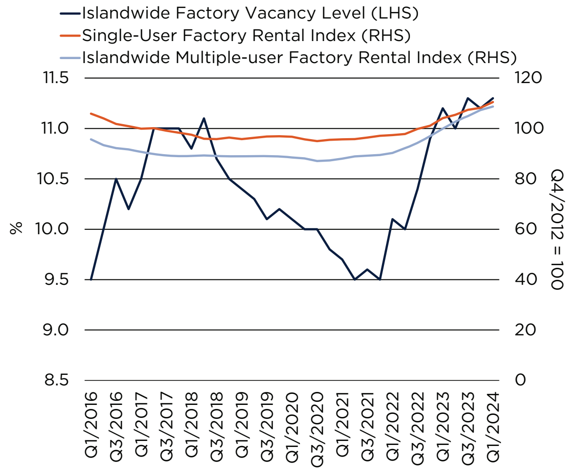
3 Based on Savills basket of private multiple-user factory properties which ranges from 1,000 sq ft to 3,000 sq ft in size, with an average monthly asking rent of at least S$1.50 per sq ft.

4 Based on JTC's sales caveat data, downloaded on 15 April 2024.

5 Where ESR Bizpark @ Chai Chee and Changi Business Park are located at.

6 Where Mapletree Business City, Science Park and one-north are located at.

GRAPH 4: Vacancy Rate of Factory Space vs Rents, Q1/2016 to Q1/2024



Source JTC, Savills Research & Consultancy

TABLE 1: Rental Forecast for Multiple-user Factory and Warehouse & Logistics Segments

PERIOD	YoY % CHANGE IN MULTIPLE-USER FACTORY RENTS	YoY % CHANGE IN WAREHOUSE & LOGISTICS RENTS
2024F	0%	0% to 3%

Source Savills Research & Consultancy

by JTC posting a strong growth of 2.1% QoQ, Savills' prime business park[7] monthly rents increased by 3.7% QoQ to S$6.11 per sq ft in Q1. Some landlords of standard business park properties are keeping their rental expectations realistic to improve occupancy, hence Savills' standard business park[8] monthly rents saw a slower growth of 0.8% QoQ to S$4.06 per sq ft in Q1.

High-spec industrial spaces, especially those with good accessibility, remain attractive as the supply of such premises has been limited. With the new completions last year, healthy demand supported the rental growth for high-spec industrial space. According to Savills' high-spec industrial basket[9], the average monthly rent increased 1.7% QoQ to S$3.96 per sq ft in Q1. This increase is driven mainly by buildings located close to MRT stations and a wide array of amenities.

OUTLOOK

The global economy is expected to recover this year as inflation eases and improved supply chain conditions drive consumer expenditure and other economic activities. However, the recovery is likely to be modest as numerous headwinds continue to raise uncertainty levels, impacting investment and consumption decisions. Geopolitical tensions remained the primary upside risk to global inflation, and thus could potentially weaken the economic recovery momentum this year. Singapore's manufacturing and trade-related sectors are projected to post a gradual pick-up in growth in tandem with the expected turnaround in global electronics demand.

The various metrics representing the industrial property market are therefore also expected to see further growth, though at a slower rate. Rents are projected to continue to climb for some segments, led by new and quality developments. While prime warehouse and logistics are likely to lead growth, it could be tempered by the bulk of the supply pipeline slated to come onstream this year (estimated at around 3.7 million sq ft NLA), compared with the average historical completion of 2.5 million sq ft NLA in the last four years.

The upcoming supply for single-user factory space is also expecting a surge to 10.7 million sq ft NLA this year, compared with the four-year average completion of 4.5 million sq ft NLA. The ramp-up in supply is likely to put pressure on the vacancy rate and hinder rental growth. On the other hand, upcoming supply for multiple-user factory space will taper to 558,000 sq ft NLA this year, down from the four-year average of 3.2 million sq ft NLA. Although this is not expected to translate to robust rental growth, the tapered supply could help to ease vacancy.

With the expected completion of Punggol Digital District by 2024 (which will bring about 3.2 million NLA of new business park space), business park vacancy rate is likely to hit a new high. However, modern and well-managed business parks and high-spec industrial space are expected to see further rental growth.

The question remains why, despite rising vacancy levels, are rents still rising? (Please refer to Graph 4) We believe that this seemingly illogical phenomenon has a rational explanation, namely that of tenancy of last resort. As business conditions become more and more challenging, if a company decides not to wind up, the need to contain costs then becomes paramount. SMEs, be it those in the traditional industries or software developers, downshift from larger and more expensive industrial building types to lower cost ones. Also, some SMEs who require small storage space but cannot find those sizes in warehouses - since their lettable area offered is often much larger - resort to storing it in factories. Therefore, factory space renting for S$1.90 psf pm has now become the backstop for the SMEs who are still not giving up the fight in this difficult environment. Over time, if business conditions do not improve, we believe that rents may ultimately have to reflect that.

For now, we are maintaining our rental change forecast for multiple-user factories at 0% YoY while those for warehouses are expected to rise between 0% and 3%.

7 Based on business park-zoned spaces in the newer clusters which range from 1,000 sq ft to 5,000 sq ft in size, with an average monthly asking rent of at least S$5.50 per sq ft.
8 Based on business park-zoned spaces in the older clusters which range from 1,000 sq ft to 5,000 sq ft in size, with an average monthly asking rent of at least S$3.50 per sq ft.
9 Based on office-like industrial space which ranges from 2,000 sq ft to 4,000 sq ft in size, with an average monthly asking rent of at least S$3 per sq ft.