

Briefing Industrial sector

July 2012



Image: Tuas Lot

SUMMARY

Soaring prices bear testament to the fact that the market is ignoring negative global events.

- Seven-hundred and thirty-three caveats for strata factories were lodged in Q2, down from Q1's 1,028 caveats and significantly less than the 1,793 caveats in the same period last year.
 - Notwithstanding the slower sales, prices continued to scale new highs with demand coming largely from investors rather than industrialists.
 - There was an increasing number of overseas buyers as they are not subject to the cooling measures imposed on the residential sector.
 - Prices of 60-year leasehold upper-storey factory units tracked by Savills climbed 4.2% in Q2 to S\$424 per sq ft, exceeding the last peak in Q3/2008 by 37%.
 - The leasing market remained buoyant with industrialists preferring to rent rather than buy in anticipation of a price correction.
 - Monthly rents of upper-storey factory and warehouse units inched up from S\$1.90 per sq ft in Q1 to S\$2.00 per sq ft in Q2.
 - High-tech rents remained unchanged averaging S\$3.00 per sq ft per month.
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- “Despite talk of a price correction, the industrial sector continues to draw a healthy dose of interest from investors given the current low interest-rate environment, relatively affordable quantum, good finished product and attractive yields.” Alan Cheong, Savills Research
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➔ **Macro-economic overview**

According to the Economic Development Board, Singapore's manufacturing output grew 6.6% year-on-year (YoY) in May while the Purchasing Managers' Index, a barometer of manufacturing sentiment, returned to expansion mode with a reading of 50.4. Nevertheless, the positive result came after an anaemic and volatile performance, raising doubts on the sustainability. Meanwhile, the outlook remains shrouded with uncertainty as the ongoing eurozone debt saga and China's slowing economy threaten to derail recovery.

The government has shortened the maximum land tenure for new industrial sites from 60 years to 30 years, in an effort to make industrial properties more affordable to industrialists and also to increase flexibility for redevelopment in the not too distant future. The move will apply to the 19 sites made available for sale under the 2H/2012 Industrial Government Land Sales Programme.

TABLE 1 **Upper-storey prices at major 60-year leasehold factories, Q2/2012**

Location	Address	Average price (S\$ per sq ft)
8B @ Admiralty	Admiralty Street	313
Midview City	Sin Ming Lane	452
Northstar @ AMK	Ang Mo Kio Avenue 5	405
Primz Bizhub	Woodlands Close	396
Wcega Plaza	Batok Crescent	270

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

Sales and price

Soaring prices and expectations of a market correction dampened buying sentiment in Q2. According to SISV-REALink, only 733 sales caveats for strata factories were lodged in Q2¹. The full Q2 number is likely to be lower than Q1 and significantly less than the 1,793 caveats in the same period last year.

Notwithstanding the slower sales, industrial prices continued to scale

¹ SISV-REALink caveat record as of 25 June 2012.

new highs with demand coming largely from investors rather than industrialists. They include those who switched camp from the residential market or investors priced out of other real estate segments. The market is also seeing an increasing number of overseas buyers as industrial properties are not subject to the cooling measures imposed on the residential sector.

With the government halving the tenures for new industrial sites to 30 years, 60-year leasehold industrial properties have become more valuable. Prices for 60-year leasehold upper-storey factory units tracked by Savills climbed 4.2% in Q2 to S\$424 per sq ft, surpassing the last peak in Q3/2008 by 37%.

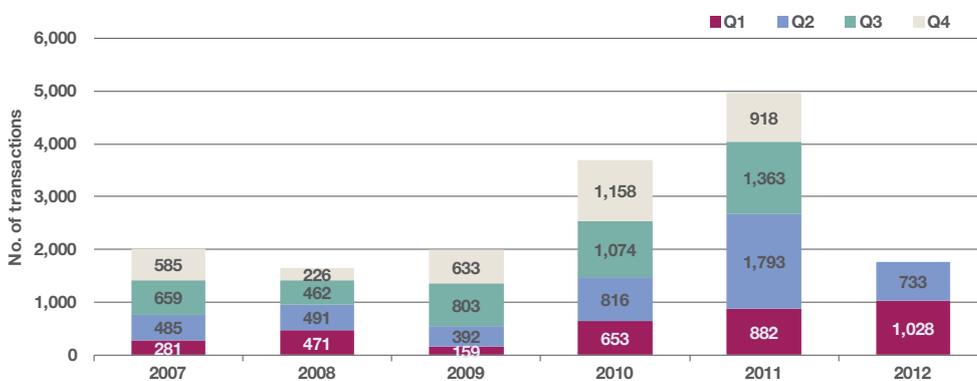
The priciest 60-year leasehold units were at Cendex Centre, Enterprise One and UB.1 where upper-storey units changed hands at an average price of S\$767, S\$516 and S\$507 per sq ft respectively. Projects with the most active transactions in Q2 were 8B @ Admiralty, Midview City, Northstar @ AMK, Primz Bizhub and Wcega Plaza.

Leasing

The leasing market remained buoyant with industrialists preferring to rent rather than buy, in anticipation of a price correction. A total of 982 leasing transactions were recorded in April and May. The full number for Q2 could therefore surpass Q1's 1,219 deals and Q2/2011's 1,157 deals. We note that most of the transactions involve renewals rather than new commitments.

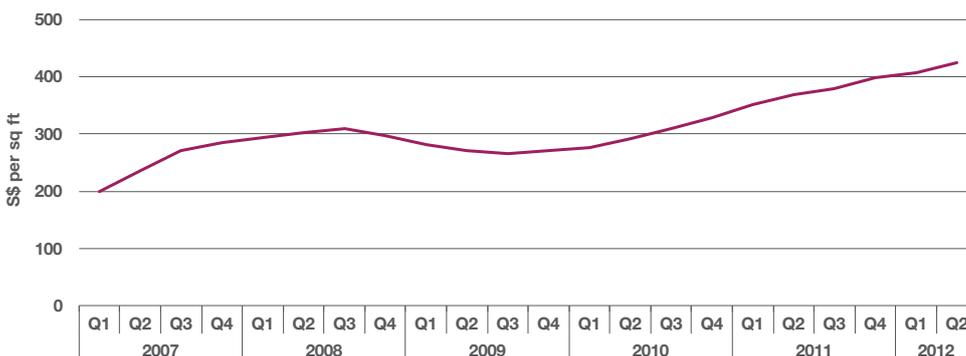
Monthly rents of upper-storey factory and warehouse units inched up from S\$1.90 per sq ft in Q1 to S\$2.00 per sq ft in Q2, while high-tech rents remained unchanged averaging S\$3.00 per sq ft per month. ■

GRAPH 1 **Strata factory sales volume, 2007–Q2/2012**



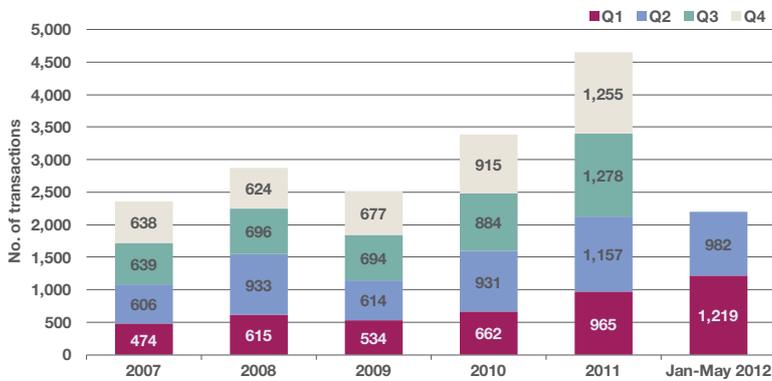
Source: SISV-REALink, Savills Research & Consultancy

GRAPH 2 **Average price of 60-year leasehold upper-storey factory units, Q1/2007–Q2/2012**



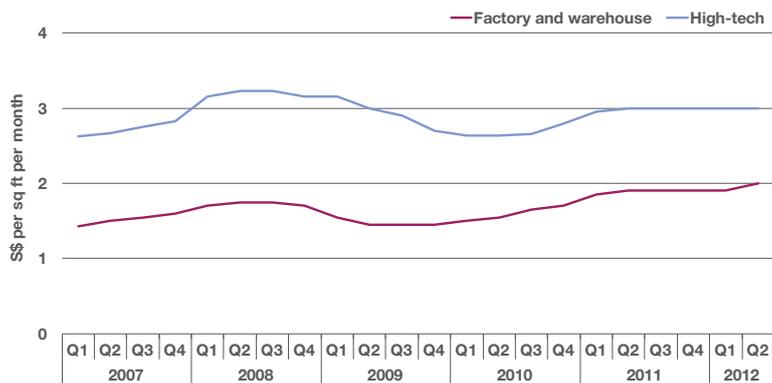
Source: Savills Research & Consultancy

GRAPH 3
Factory leasing volume, 2007–Jan to May 2012



Source: URA, Savills Research & Consultancy

GRAPH 4
Average rents of upper-storey industrial properties, 2007–Q2/2012



Source: Savills Research & Consultancy

TABLE 2
Major projects in the pipeline, 2012–2015

Project name	Location	GFA (sq ft)	Estimated completion
A'Posh Bizhub	Yishun Avenue 6/Yishun Industrial Street 1/Yishun Street 23	380,000	2012
Changi City	Changi Business Park Central 1	766,000	2012
Harvest @ Woodlands	Woodlands Avenue 4	673,000	2012
North Point Bizhub	Yishun Avenue 6	383,000	2012
Biopolis (Phase 5)	Biopolis Road	491,000	2013
Fusionopolis (Phase 3)	Fusionopolis Link	162,000	2013
North Spring Bizhub	Yishun Industrial Street 1/Yishun Street 23	1,253,000	2013
Woodlands 11	Woodlands Close	869,000	2013
Premier @ Kaki Bukit	Kaki Bukit Avenue 4	807,000	2014
Primz Bizhub	Woodlands Avenue 12/Woodlands Drive 64	552,000	2014
Futuris, Synthesis, Kinesis (Fusionopolis Phase 2A)	Ayer Rajah Avenue/Fusionopolis Way	959,000	2015
Oxley Bizhub 1	Ubi Road 1	938,000	2015
Oxley Bizhub 2	Ubi Road 1	333,000	2015

Source: A-REIT, JTC, URA, Savills Research & Consultancy

OUTLOOK

The prospects for the market

The industrial sector is faced with sluggish manufacturing growth, a potential supply glut and the expectation of a price correction, as prices have shot ahead of rents. However, the sector continues to draw a healthy dose of interest from investors given the current low interest-rate environment, relatively affordable quantum and attractive yields. In addition, other factors supporting prices, such as completed developments on selected government land sites having approval to be used as both industrial premises and workers' quarters, are expected to improve rental yields. Also, as land costs rise, the average cost curve will move in tandem. Hence, barring external shocks or government intervention, industrial property prices could remain resilient with a biased upside. Meanwhile, the rental market will benefit from the current high prices of industrial properties as many industrialists may defer their purchases and renew their leases instead. We therefore expect rents to hold firm this year.

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