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Savills World Research
Singapore

Briefing
Industrial sector

August 2013

Image: CT Hub, Kallang Avenue

SUMMARY

Continuing price increases are complementing record-breaking leasing activity.

- In Q2, 762 caveats were lodged for strata factories and warehouses, registering a 0.3% slip quarter-on-quarter (QoQ) and a 46.8% drop year-on-year (YoY).
- Prices of upper-storey factory and warehouse units tracked by Savills saw 30-year leasehold properties lead the rise with 3.0% in Q2 to S$367 per sq ft.
- Freehold and 60-year leasehold prices increased by 1.1% and 2.7% respectively to S$676 and $469 per sq ft.
- Leasing activity was at an historical high despite the rising vacancy rates due to an oversupply situation in the market.
- Business park space saw a decline of 33.8% QoQ and 12.2% YoY in leasing transactions as vacancy rates increased to 19.1% this quarter.
- Rents for business park space remained constant at S$4.00 per sq ft in Q2/2013.

"Notwithstanding cost pressures building up on industrial space users, prices should continue to rise, albeit at lower rates. We see this carrying on for a while as copious liquidity lifts all boats."
Alan Cheong, Savills Research

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Macro economic overview

The manufacturing sector picked up in Q2/2013, expanding by 37.6% QoQ, according to the Ministry of Trade and Industry's estimates, after a 12.7% decline in the previous quarter. The Singapore Purchasing Manager's Index (PMI) for April, May and June also scored 50.3, 51.1 and 51.7 respectively, indicating an expansion of the manufacturing sector, with June recording its best performance in two years. This was due to the increase in new orders and export orders, as well as higher manufacturing output for biomedical and electronic products.

Sales market

Sales activity in the industrial property market for Q2/2013 was on par with one quarter ago. A total of 762 caveats for strata factories and warehouses were lodged in the quarter, registering a 0.3% slip from the previous quarter but a substantial drop of 46.8% from Q2/2012[1]. The lower quarterly number of caveats lodged for the first half of this year relative to the same period of 2012 could be attributed to the recent Seller's Stamp Duty (SSD) that came into effect in January 2013. The SSD requires sellers of industrial properties acquired on or after 12 January 2013 to pay stamp duty if the properties are sold within three years of purchase. The stamp duty may have reduced demand from those who were intending to buy industrial properties for speculative reasons, as these were popular investment alternatives to residential properties in the recent past.

1 Singapore Institute of Surveyors and Valuers (SISV) REALink caveats as of 31 July 2013.

In the reviewed quarter, prices of upper-storey strata factories and warehouses tracked by Savills were still rising despite slower sales. The growth was spearheaded by 30-year leasehold properties, registering the highest increase of 3.0% QoQ at S$367 per sq ft. The prices of freehold and 60-year leasehold properties also moved upwards by 1.1% and 2.7% respectively to S$676 and S$469 per sq ft. The priciest 60-year leasehold upper-storey unit this quarter was in Cendex Centre, sold at S$850 per sq ft, continuing Cendex Centre's record-breaking streak for the second consecutive quarter. Its central location in the Bukit Merah planning area is one of the main reasons for its pricing premium.

Leasing market

The cumulative leasing volume for Q2/2013 reached a new historical high of 1,981 deals, which we believe consist predominantly of tenancy renewals. Transaction volumes grew 30.9% QoQ and exceeded the previous quarterly record of 1,732 deals set in the same period last year. The recent pick-up in the manufacturing industry was one of the key reasons behind this record-breaking number of leasing deals.

Although leasing transactions increased, rental rates remained flat in Q2/2013. The monthly rents of both upper-storey factory and warehouse units were S$2.00 per sq ft. High-tech units also maintained their rates at S$3.00 per sq ft. The status quo was due to the oversupply situation in the industrial property market and cost pressures on tenants. However, we did not see a decrease in rental rates as landlords still looked to maintain the rental yields of their properties while tenants had difficulty in finding similar alternative premises at rents low enough to outweigh relocation costs, among other factors.

The vacancy rate for factories and warehouses suffered a quarterly increase from 6.6% in Q1/2013 to 7.1% in Q2/2013 as the gap between net supply and net demand increased almost four-fold from 603,000 sq ft in Q1/2013 to 2,368,000 sq ft in Q2.

Business park

Rents of business park space stayed resilient at S$4.00 per sq ft in the reviewed quarter, as the volume of transactions fell. A total of 43 deals were recorded in Q2/2013, declining by 33.8% from the previous quarter and 12.2% YoY.

The net supply for Q2/2013 was about 377,000 sq ft while the net demand posted a negative value of 11,000 sq ft, resulting in a rise in vacancy rates of business parks from 17.2% in Q1/2013 to 19.1% in Q2/2013.

TABLE 1

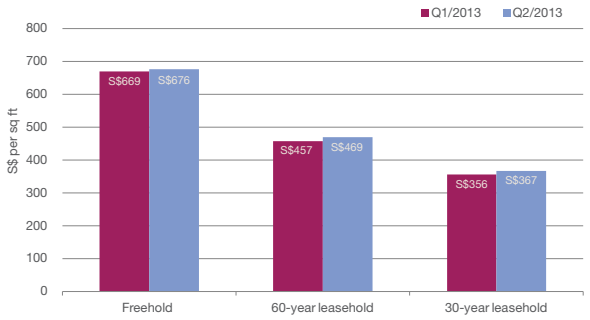
Upper-storey strata factories and warehouses with the highest number of transactions, Q2/2013

Project	No. of caveats	Average transacted price (S$ per sq ft)
Freehold		
PRIMAX	26	641
AZ @ PAYA LEBAR	9	1,188
60-year leasehold		
HARVEST @ WOODLANDS	28	421
ARK @ GAMBAS	18	392
30-year leasehold		
PIONEER CENTRE	28	331
SYNERGY @ KB	26	354

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

GRAPH 1

Prices of upper-storey factory* and warehouse units, Q1/2013 and Q2/2013

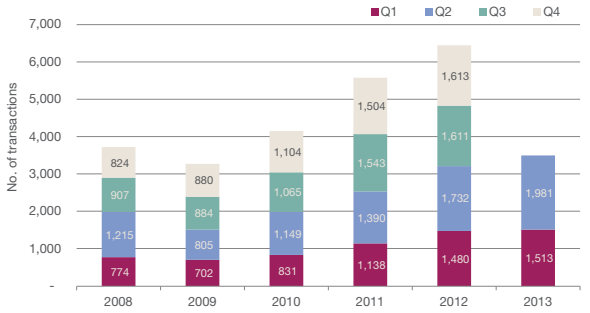


Source: URA, Savills Research & Consultancy

*Including single-user and multiple-user factories.

GRAPH 2

Leasing volumes of factories* and warehouses, 2008–Q2/2013



Source: URA, Savills Research & Consultancy

*Including single-user and multiple-user factories.

TABLE 2

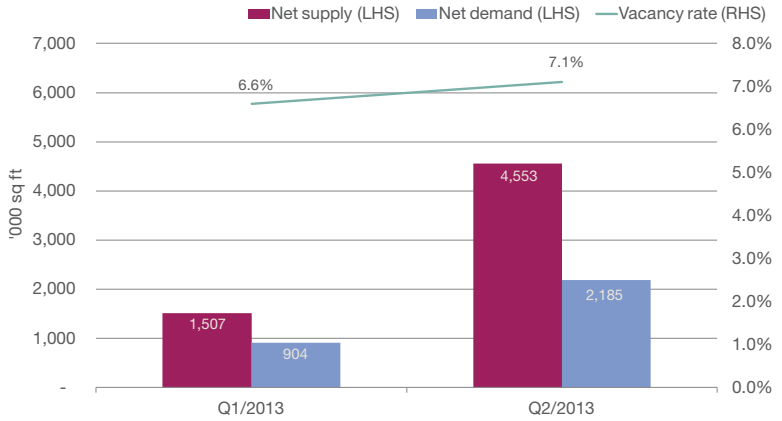
Business park leasing volumes and values, Q2/2013

	No. of deals	Total value (S$)	Average value per transaction (S$)	Median rent (S$ per sq ft)
Changi Business Park	6	127,371	21,229	4.00
International Business Park	23	754,816	32,818	4.00
Mapletree Business City	1	129,239	129,239	5.53
Science Park	13	247,648	19,050	3.90

Source: URA, Savills Research & Consultancy

GRAPH 3

Net supply, net demand and vacancy rate of factories* and warehouses, Q1/2013–Q2/2013



Source: URA, Savills Research & Consultancy

*Including single-user and multiple-user factories.

OUTLOOK

The prospects for the market

The manufacturing sector is expected to slow in the second half of the year and this could moderate any upside for the industrial property market. Prices of all industrial properties may see smaller increases as sellers lower their expectations. Sales activity could also abate as the SSD dampens speculative demand. Rents may see a decline on the back of the oversupply situation. However, well-located and -designed industrial buildings that meet manufacturers' specifications could continue to command premium rents.

On a separate note, we observe that existing small and medium enterprises (SMEs) are generally apprehensive about moving their operations overseas due to the uncertainties about the regulatory framework in a new country. Owing to their reluctance to move, these SMEs are likely to renew their leases at rents closer to landlords' expectations.

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