savills

Briefing
Industrial sector

September 2016

Image: Singpost Regional eCommerce Logistics Hub, 37 Greenwich Drive

SUMMARY

The local manufacturing sector remains under a cloud as the global economic slowdown lingers.

- Singapore's economy grew by an estimated 2.2% year-on-year (YoY) in Q2/2016, dragged down by the traditional mainstay of the economy, the manufacturing sector, which accounted for 0.2% of the growth.

- A total number of 355 caveats were lodged for strata factories and warehouses in Q2/2016, up 46.1% from the preceding quarter.

- Prices of 30- and 60-year leasehold properties slipped 4.2% and 0.5% quarter-on-quarter (QoQ) to S$368.10 per sq ft and S$466.37 per sq ft in Q2/2016 respectively. On the other hand, prices of freehold properties inched up S$0.22 to S$688.99 per sq ft in Q2/2016.

- Compared to the 8.0% QoQ decrease in Q1/2016, rental volume surged 29.2% QoQ to 2,285 in Q2/2016.

- In Q2/2016, factory and warehouse monthly rents held firm at S$1.70 per sq ft, whereas high-tech property monthly rents displayed resilience with a 1.1% QoQ gain to S$2.76 per sq ft.

- Business parks' monthly rents slipped 0.7% QoQ to S$4.08 per sq ft in the second quarter.

- Abject pessimism is unwarranted because once both rents and prices have adjusted to the new product costs equilibrium, demand will emerge.

"With higher labour costs and a shift away from the oil and marine sectors, the industrial space market is finding a new equilibrium." Alan Cheong, Savills Research

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Macro economy

The global economy remains sluggish and has become uncertain due to the Brexit event and the slowing of international trade. Owing to shrinking domestic demand, the Eurozone economy slowed down in Q2/2016. Similarly for Japan, the economy lost its momentum because of the waning domestic demand. Supported by a ramp-up in infrastructure projects, the Chinese economy kept the same pace of growth in Q2/2016. In the same quarter, other economies such as Indonesia and Malaysia also recorded a stagnant growth rate. On the other hand, the US economy had a modest growth in Q2/2016, due to the rise in private consumption.

According to the Ministry of Trade and Industry (MIT), Singapore's economy grew by an estimated 2.2% year-on-year (YoY) in Q2/2016. The traditional mainstay of the economy, the manufacturing sector, had a lacklustre performance and only accounted for 0.2% of the growth. After the 0.5% YoY dip in the previous quarter, the manufacturing sector expanded by 1.1% YoY in Q2/2016. This was largely brought about by the rising output in the electronics and biomedical manufacturing clusters. While the former was boosted by the healthy growth in the semiconductors segment, the latter was driven by the surge in the output of pharmaceuticals and medical technology segments. However, the contraction in the chemicals, transport engineering and general manufacturing clusters restrained growth.

In June, the Singapore Purchasing Managers' Index (PMI) inched down by 0.2 of a percentage point (ppt) month-on-month (MoM) to 49, signalling contraction (a reading below 50 indicates a contraction) since last July. This was due to lower factory output and an accelerating rate of decline in new orders and new exports. On the bright side, non-oil domestic exports (NODX) saw a turnaround from the negative growth which has lasted for a few quarters.

Sales market

Aided by the expansion of the manufacturing sector in the second quarter, industrial property demand made a recovery from the three straight quarters of fall. A total number of 355[1] caveats were lodged for strata factories and warehouses in Q2/2016, bringing the 1H/2016 total to 598 transactions. Although there were 46.1% more caveats lodged than the first quarter, it was a 22.1% YoY dip from the 456 deals witnessed in Q2/2015.

According to the Urban Redevelopment Authority (URA), the total value of these transactions reached more than S$0.6 billion, surpassing last quarter's value by 76.7%. The highest sales volume among the strata industrial developments was recorded in Win5@Yishun where 11 units changed hands at an average unit price of S$243 per sq ft. This was closely followed by 10 units in North Link Building@Sembawang that transacted at an average unit price of S$160 per sq ft.

Notwithstanding the increase in sales, upper-storey factory and warehouse units in the Savills basket did not show any price appreciation. Owners of 30-year leasehold industrial units in particular, seemed to be more willing to accept lower prices. This was reflected in the 4.2% QoQ decline to S$368 per sq ft. However, sellers of 60-year leasehold industrial properties held their ground well, with prices only inching down marginally by 0.5% QoQ to S$466 per sq ft. For freehold industrial developments, given their limited supply in Singapore, prices managed to buck the generally downward trend and rose slightly from S$688.77 per sq ft in Q1/2016 to S$688.99 per sq ft in Q2/2016.

Leasing market

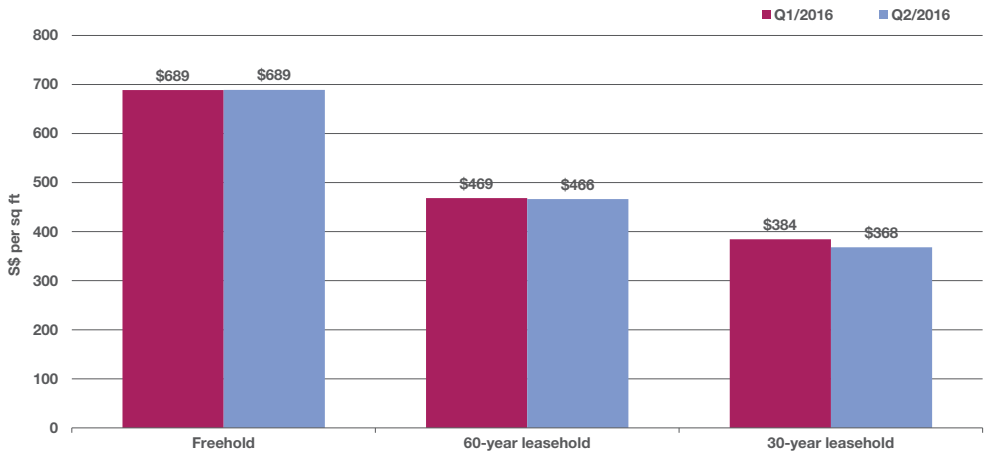
In Q2/2016, activity in the industrial leasing market picked up after three consecutive quarters of decline. Compared to the 8.0% QoQ decrease in Q1/2016, rental volumes surged 29.2% QoQ to 2,285 in Q2/2016. This could be due to the preference to lease rather than to buy in an uncertain economy. Nevertheless, it was still 1.4% YoY lower than the lease volume of 2,317 in Q2/2015.

In the face of a slow and uncertain economy, companies occupying industrial premises remained cautious. The average monthly rent of Savills basket for the factory and warehouse sector held firm at S$1.70 per sq ft in Q2/2016. the high-tech property sector displayed its resilience in the reviewed quarter. Based on a basket of tracked high-tech spaces, Savills research shows that the average

1 Singapore Institute of Surveyors and Valuers REALink caveats as of 22 August 2016

GRAPH 1

Prices of upper-storey factory and warehouse units, Q1/2016 and Q2/2016



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

monthly rent of high-tech spaces rose 1.1% QoQ to S$2.76 per sq ft in Q2/2016, reversing the 0.42% QoQ drop recorded in the preceding quarter. The reason for this is that high-spec industrial space is still sought after because for high-value-add industrialists, they offer office-like facilities and amenities at significantly lower rents. However, on a YoY basis, rents slipped 4.8% from S$2.90 per sq ft per month in Q2/2015.

Business parks

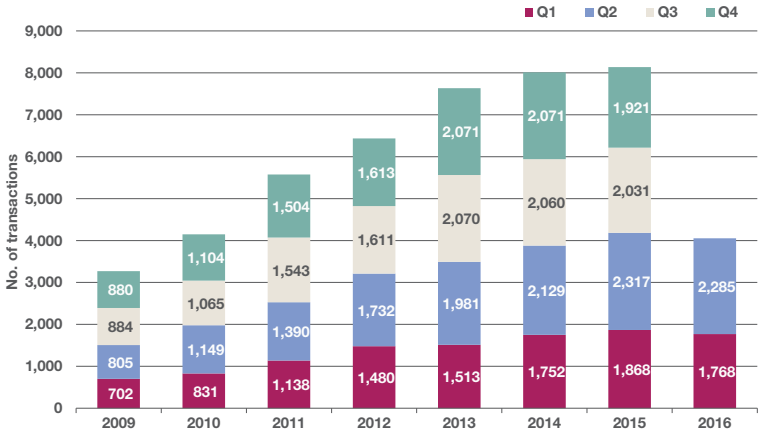
Following the easing of demand in the two preceding quarters, demand for business park space in the rental market surged 18.4% QoQ from 38 leases in the first quarter. The International Business Park, which had the most number of deals in Q2/2016, probably benefitted from the efforts by the government to promote Jurong Lake District (JLD) as the second Central Business District (CBD). However, the other business parks underperformed as the market conditions turned unfavourable. Consequently, the island-wide vacancy of business park space fell by 0.7 ppts to 19.0% in the reviewed quarter.

As compared to other business parks, One-North had the steepest QoQ drop in vacancy level at 9.4% in Q2/2016. As such, One-North had the lowest vacancy level at 6.9% in the quarter. Even though business park vacancy levels have been on the rise for the past few consecutive quarters, landlords are still holding rents quite firm. Following the flat growth in the preceding quarter, the average monthly rent of Savills basket for business parks fell by a marginal 0.7% QoQ to S$4.08 per sq ft in Q2/2016.

To ensure adequate supply of business park spaces to support the growth of key industry clusters within the area, Jurong Town Corporation (JTC) has allocated around 202,361.3 sq ft of ready-built facilities space for business park uses, in which the majority of the allocated space was at Fusionopolis for research and development activities.

GRAPH 2

Leasing volumes of factories and warehouses, 2009–Q2/2016



Source: URA, Savills Research & Consultancy

TABLE 1

Business park leasing volumes and values, Q2/2016

	No. of deals	Total value (S$)	Average value per transaction (S$)	Median rent (S$ per sq ft)
Technopark @ Chai Chee	1	5,429	5,429	3.50
Changi Business Park	6	32,205	8,051.25	3.90
International Business Park	26	309,342	11,897.77	4.17
Science Park 1	6	65,005	10,834.17	4.22
Science Park 2	6	94,046	15,674.33	3.95
One-north	2	18,864	9,432	5.25

Source: URA, Savills Research & Consultancy

OUTLOOK

The prospects for the market

The impact from Brexit only came in at the end of June, thus its effect was still not reflected in the MTI's June industrial production figures. Nonetheless, in the coming quarters, Brexit is likely to create uncertainties in the global economic health, especially that of the EU. As the local manufacturing sector is reliant on the EU's performance, the weakening economic performance there is likely to affect Singapore's growth prospects.

The latest estimates from MTI indicated that the local economy is projected to expand by 1.0% to 2.0% in 2016, which if turns out, would be the slowest growth since 2009. According to MTI, global economic growth is expected to remain lacklustre. Aside from the Brexit event, the Chinese economy is also expected to continue to slow. Singapore's manufacturing sector should therefore be affected. Given the weak global demand, MTI highlighted that the expansion of the manufacturing sector in Q2/2016 may not be sustainable.

Industrial rents and prices are therefore expected to continue to soften in the coming quarters. However, it is not a case where abject pessimism pervades the industry, because once rents and prices have adjusted to match the new production costs equilibrium, the latent demand will transform to real demand. This new production equilibrium is formed by higher labour costs and a shift away from the heavy oil and marine sectors towards the high and green technology and biotechnology ones.

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