Savills World Research
Singapore

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Briefing
Industrial sector

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Image: Mapletree Business City II, Alexandra Terrace

SUMMARY

High-tech industrial and business park sectors may stage a recovery amid improvement in certain industrial clusters.

- In Q2/2017, the Singapore economy expanded 2.9% year-on-year (YoY), exceeding the economists' expectations of 2.7% growth.
- After three quarters of decline, the industrial property market had a 45.0% quarter-on-quarter (QoQ) rebound in sales volume to 293 transactions in Q2/2017.
- The price of 30-year leasehold industrial properties continued to fall 1.0% QoQ to S$354 per sq ft, the lowest record since the basket was constituted in 2013. 60-year leasehold properties showed resilience, recording a smaller dip of 0.1% QoQ to S$445 per sq ft in Q2/2017.
- The prices of freehold upper-storey factory and warehouse units in the Savills basket rebounded 3.2% QoQ to S$677 per sq ft in Q2/2017.
- Rental transactions rose 33.8% QoQ to 2,401 leases in Q2/2017.
- The average prime monthly rent for factory and warehouse sector continued to decline for seven straight quarters to S$1.30 per sq ft while high-tech industrial properties improved to S$3.27 per sq ft.
- We believe that market weakness for prices and rents should continue till at least the end of this year.

"Market weakness continues as the transition to the new economy is taking longer than expected." Alan Cheong, Savills Research

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Macro economy

According to the advanced estimates released by the Ministry of Trade and Industry (MTI), Singapore's economy saw a rate of expansion at 2.9% YoY in Q2/2017, exceeding the economists' expectations of 2.7% growth. Apart from services which grew 2.4% YoY, the robust growth was mainly supported by the manufacturing sector which came in at 8.0% YoY in Q2/2017, following from the 8.5% growth in Q1/2017. The rise was led by the electronics and precision engineering clusters due to rising demand for semiconductors and semiconductor manufacturing equipment respectively.

In April, the Singapore Purchasing Managers' Index (PMI) decreased 0.1 point from 51.2 in March. The reading in March was the highest since late-2014. The PMI reading dipped further by 0.3 points to a slower expansion rate of 50.8 in May. The slowdown in both months was due to lower growth rates in key indicators of new orders, new exports, inventory and employment. However, there was an improvement in these areas in June, but overall employment saw further contraction, thereby causing June's PMI to rise by just 0.1 point to 50.9. Nonetheless, the manufacturing sector has marked its tenth consecutive month of expansion, indicating that the growth of the sector was sustainable despite challenges in the global market environment.

However, Singapore's exports saw an unexpected drop in April after a five consecutive-month increase. Even though electronic non-oil domestic exports (NODX) expanded for the seventh straight month in May, it was outweighed by the fall in non-electronic NODX. The decline in the latter was mainly due to the pharmaceutical sector. Consequently, Singapore's NODX contracted 0.8% and 1.2% YoY in April and May respectively. Later in June, NODX grew by 8.2% YoY as both electronic and non-electronic NODX rose. This resulted in a 2.7% YoY growth in Q2/2017.

Sales market

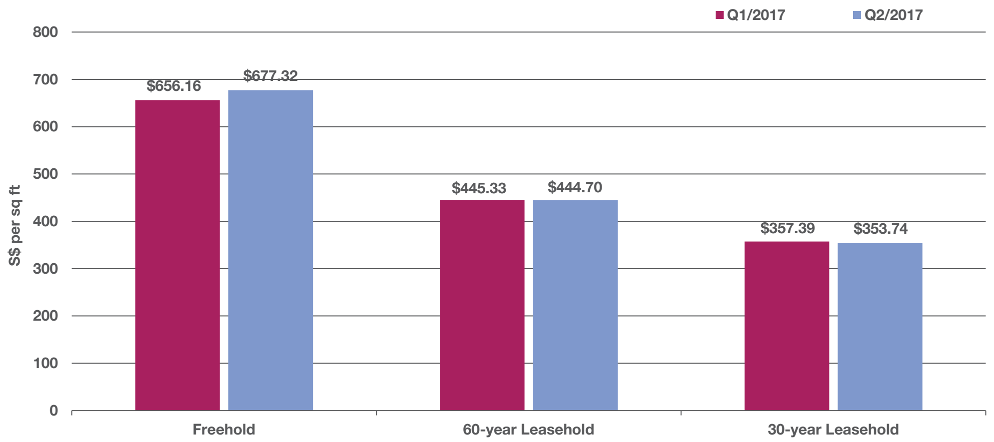
Following a three-quarter dip, the industrial property market had a 45.0% QoQ rebound in sales transactions in Q2/2017. Notwithstanding the sales recovery, the 293[1] caveats lodged for strata factories and warehouses was still 23.1% lower than the 381 deals registered a year ago, and also 5.8% below the average quarterly sales of 311 transactions in 2016.

Furthermore, the higher number of sales transactions did not translate to higher total value of sales transactions. According to the Urban Redevelopment Authority (URA), the total value of transactions in Q2/2017 added up to around S$0.4 billion (S$408.2 million), far below last quarter's sales record of nearly S$0.6 billion. This was due to a lack of 'big ticket' transactions which lifted total sales transaction value in the preceding quarter. Compared to the major factory resale transaction of S$193.8 million in Q1/2017, the largest transaction in Q2/2017 was the land resale of Super Continental Building for S$20.0 million. Other than the secondary market transaction of NNB Industrial Building at over S$19.2 million, the remaining three major transactions in Q2/2017 were at an estimated average price of S$17.7 million. As such, the total sales value of factory properties in Q2/2017 almost halved to S$394.0 million as compared to the first quarter.

1 Singapore Institute of Surveyors and Valuers REALink caveats as of 3 August 2017

GRAPH 1

Prices of upper-storey factory and warehouse units, Q1/2017 and Q2/2017



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

Sales transactions of warehouse properties also saw a decrease by more than half to S$14.2 million. This was even lower than the largest warehouse transaction at S$14.25 million recorded in the first quarter. In the reviewed quarter, the largest transaction of warehouse properties was for the resale of a strata unit at K.B. Warehouse Complex at S$2.6 million.

Not only did higher sales volume not bring up total sales value, it also did not convert into higher prices. The 30- and 60-year leasehold upper-storey factory and warehouse units in the Savills basket did not see price appreciation from the previous quarter. Owners of 30-year leasehold industrial properties in particular, showed more willingness to compromise and lower their prices. After a five-quarterly declines, prices of 30-year leasehold industrial properties fell again by 1.0% QoQ to S$354 per sq ft. This is the lowest level since the basket was constituted in 2013. 60-year leasehold properties showed more resilience with a smaller dip of 0.1% QoQ to S$445 per sq ft in Q2/2017.

Owing to its freehold tenure and limited supply in Singapore, prices of freehold upper-storey factory and warehouse units in the Savills basket managed to avoid a full-year decline and instead rebounded 3.2% QoQ to S$677 per sq ft in Q2/2017. This marks the largest quarterly price recovery since Q4/2015.

Leasing market

Following three consecutive quarters of decline, industrial rental transactions rose 33.8% QoQ to 2,401[2] per number of leases

2 Lease volume excludes Business Parks.

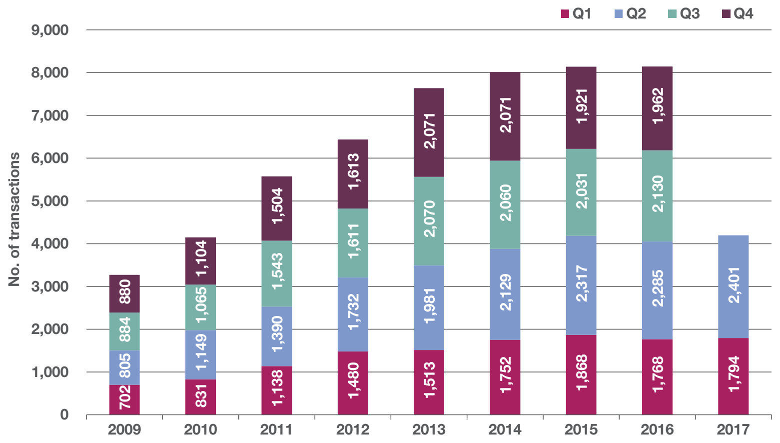
in Q2/2017, reflecting a notable improvement to a new record high since 2000. However, the strong pick-up in the leasing market may not seem to be the result of the improvement in manufacturing sector as the performance was uneven across sectors. According to the survey released by the Economic Development Board (EDB) some clusters, such as biomedical manufacturing, and precision engineering and electronics, responded with optimism for 2H/2017, while others such as general manufacturing and transport engineering firms still expected less favourable business environment.

The increase in leasing transactions could be due seasonal as the second quarter of the year frequently sees a rise in these numbers. Above this, with the net new supply of 2.2 million sq ft of factory spaces and 4.7 million sq ft of warehouse spaces that came into the market Q2/2017, the rise could also be driven by the new leases signed in the newly completed factory and warehouse developments.

Even though the net demand for warehouse spaces in Q2/2017 reached a high of 2.2 million sq ft in the past two years, it was outpaced by the surge in net supply which led to the highest vacancy level of 11.9% since 2006. However, the demand for factory space fell to 0.6 million sq ft, the lowest in the past three quarters. This caused the vacancy rate rise to 11.1%, the highest since 2005. Thus, the average prime monthly rent for factory and warehouse sector continued to decline for seven straight quarters to S$1.30 per sq ft, 4.0% down from the preceding quarter.

GRAPH 2

Leasing volumes of factories and warehouses, 2009–Q2/2017



Source: URA, Savills Research & Consultancy

On the other hand, while other industrial sectors are struggling with falling rents, those of high-tech industrial properties turned in a 0.7% QoQ rental increase to S$3.27 per sq ft per month. Nevertheless, it is still 1.0% lower than a year ago.

Leasing transactions for business park space in Q2/2017 almost doubled to 59 deals. This was nearly the same as the highest recorded in 2015. Supported by the healthy take-up in Changi Business Park (CBP), International Business Park (IBP) and Science Park 2, the overall vacancy level eased 1.7 percentage points (ppts) QoQ to 14.3% in the reviewed quarter.

IBP, which is frequently the leader in terms of transactions, saw 19 deals in Q2/2017. Science Park 2 and CBP also had a significant increase in the number of leases to 14 and 12 deals respectively. This in turn helped to ease the vacancy levels to 14.5%, 21.8% and 10.6% respectively from the previous quarter. Even though the monthly median rent of Science Park 2 slipped to S$4.00 per sq ft, the monthly median rent of IBP and CBP inched up to S$4.10 per sq ft and S$4.27 per sq ft respectively. This is probably due to the recovery in demand for business park spaces.

On the other hand, the vacancy level in CleanTech Park worsened to 22.9% in the quarter. This could have some impact on limiting the rental appreciation of business park space though the general business park's occupancy level showed signs of trending up. As a result, the monthly average rent remained unchanged at S$4.05 per sq ft in Q2/2017.

TABLE 1

Business park leasing volumes and values, Q2/2017

	No. of deals	Total value (S$)	Average value per transaction (S$)	Median rent (S$ per sq ft)
Technopark @ Chai Chee	6	153,375	25,563	3.00
Changi Business Park	12	233,648	19,471	4.10
International Business Park	19	263,110	13,848	4.27
Science Park I	5	51,064	10,213	4.15
Science Park II	14	215,597	15,400	4.00
One-north	3	121,100	40,367	5.40

Source: URA, Savills Research & Consultancy

OUTLOOK

The prospects for the market

According to the World Bank, the forecast for global economic growth is more sanguine with higher growth than last year. This is likely to continue for the subsequent two years until 2019. Based on the latest Global Economic Prospects report, as manufacturing and trade are picking up, confidence levels are improving and global activity is stabilizing. Global growth is projected to strengthen from 2.4% in 2016 to 2.7% in 2017, and to 2.9% for both 2018 and 2019. However, potential growth is subject to the recovery of the global economy, economic uncertainties and potential downside risks, which include the ever present danger of anti-globalisation and protectionistic actions by governments. Political risks in the US also remain elevated.

In Singapore, the MTI expects the manufacturing sector to continue supporting the local economy in 2H/2017. The ministry's central forecast for Singapore GDP growth this year would be 2.5%. According to the Monetary Authority of Singapore (MAS), trade-related sectors, especially those involved in information technology, are likely to be the main drivers of the local economy this year. This could in turn lift the demand for high-tech and business park space for the rest of the year.

However, the uneven performance across various manufacturing sectors for 1H/2017 shows that recovery is not broad-based in Singapore. Some industrialists are likely to remain cautious as sectors such as general manufacturing are still contracting. With almost 14.9 million of new industrial supply coming on stream in 2H/2017, the industrial market is likely to face downside pressure on prices, rents and occupancy levels.

Period	YoY % change industrial and warehouse rents
Q3/2017F	-10.0%
Q4/2017F	0.0% to -5.0%

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