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Savills World Research
Singapore

Briefing
Industrial sector

August 2018

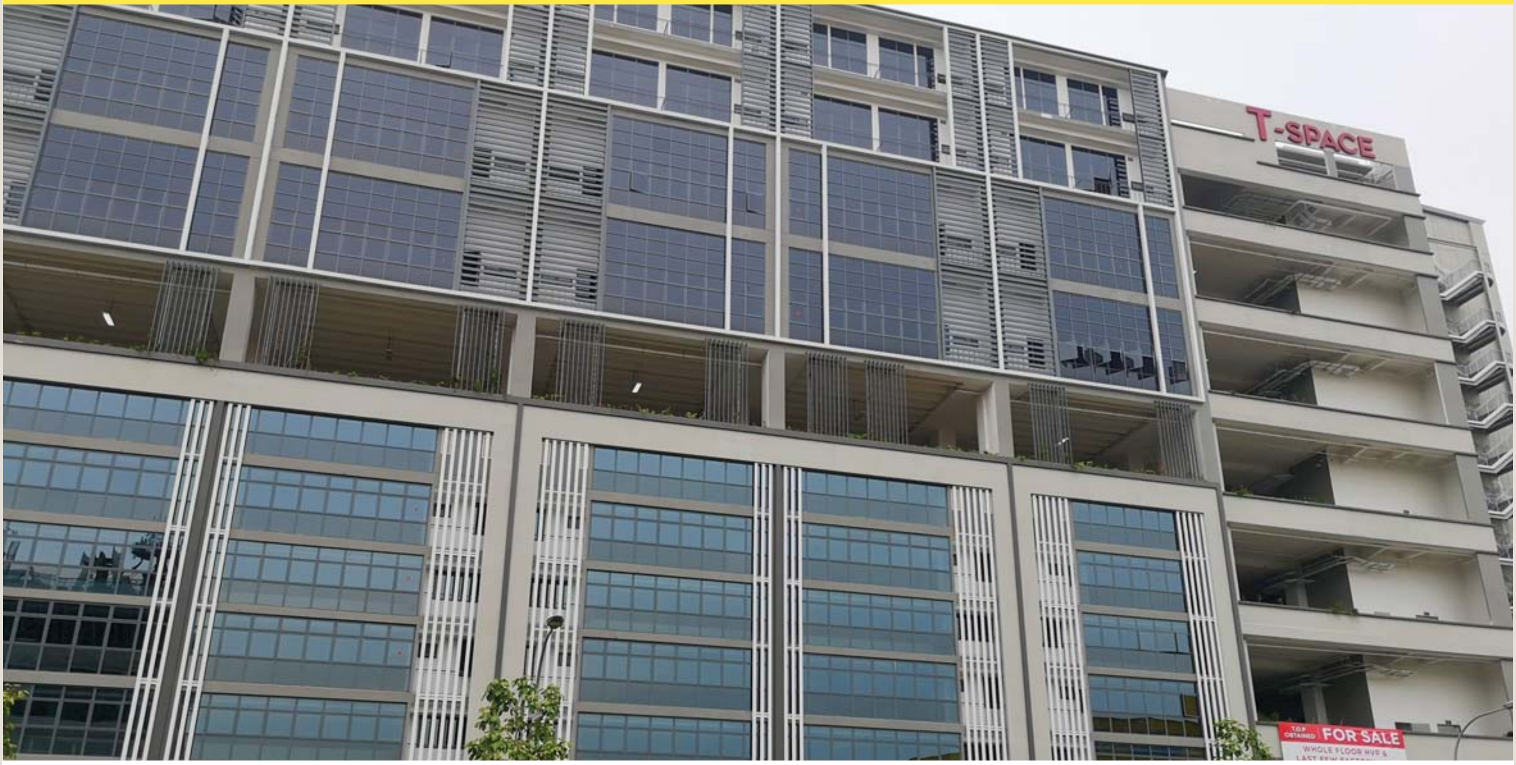

Image: T-Space @ Tampines, Tampines North Drive 1

SUMMARY

The industrial sales and leasing volume is up while prices and rents remain relatively stable.

- The industrial sales volume increased 7.5% year-on-year (YoY) to 360 transactions in Q2/2018, but the total sales value did not keep up with this pace.
- Prices of 30-year leasehold upper-storey factory and warehouse spaces in the Savills basket continued to slip, by 0.9% quarter-on-quarter (QoQ) to a record low of S$341 per sq ft in Q2/2018.
- Prices of 60-year leasehold industrial properties made a minor recovery of 0.4% QoQ to S$444 per sq ft while freehold properties went up by 0.8% QoQ to S$690 per sq ft.
- The number of industrial leases recorded in Q2/2018 hit another all-time high at 2,702 deals.
- As the glut of supply suppressed rental growth, the average prime monthly rent for factory and warehouse spaces slipped 0.2% QoQ to S$1.14 per sq ft.
- The market may still take a while to muster a broad-based recovery. However, a narrow spectrum of the market, namely Central Kitchens, has found rapidly growing traction amongst own-users and investors.

"The market is not all doom and gloom with a narrow spectrum of bullishness found in the food preparation sector."
Alan Cheong, Savills Research

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Macro economy

The Ministry of Trade and Industry (MTI) announced that the Singapore economy expanded at a slower pace of 3.9% YoY in Q2/2018, easing from the 4.5% YoY expansion in the preceding quarter. Even though manufacturing remained the main economic driver, the sector's growth eased to 10.2% YoY from 10.8% YoY in the first quarter.

The Singapore Manufacturing Purchasing Manager's Index (PMI) also saw a four-month decline from a peak of 53.0 in March to 52.3 in July, although prior to that it had recorded over 20 consecutive months of expansion. Likewise, Singapore's exports lost momentum with a subdued 1.1% YoY growth rate in June after a double-digit, non-oil domestic exports (NODX) expansion in the previous two months (+11.8% YoY in April; +15.5% YoY in May). The slowdown was due to the sustained decline in electronic exports and significant reductions in non-electronic shipments.

Sales market

Industrial sales volume saw an increase of 7.5% YoY with 360[1] transactions in Q2/2018. This surpassed the average of 335 deals for the past three years. Even though the number of industrial transactions picked up for four straight quarters, the total sales value did not keep up. According to the Urban Redevelopment Authority (URA), the total value of transacted industrial properties added up to S$494.8 million, which was still below the average quarterly industrial sales value of S$587.9 million[2] for the last three years.

This is partly due to declining prices for 30- and 60-year leasehold industrial properties, which have fallen at a compounded annual growth rate (CAGR) of 2.7% and 2.9%, respectively, over the past three years. It is noteworthy that over the same period, freehold industrial properties bucked the trend with a 1.5% increase in prices.

According to Savills basket of industrial properties, prices of 30-year leasehold upper-storey factory and warehouse units continued to slip by 0.9% QoQ to a record low of S$341 per sq ft in Q2/2018. Prices of 60-year leasehold industrial properties made a minor recovery of 0.4% QoQ to S$444 per sq ft while freehold properties went up by 0.8% QoQ to S$690 per sq ft.

Leasing market

The number of industrial leases recorded in Q2/2018 hit another all-time high at 2,702 deals[3], 28.8% more than the quarterly average of 2,097 leases recorded over the past three years. As a result of the higher leasing numbers, the factory and warehouse leasing market recorded positive net absorption in the reviewed quarter. Notwithstanding that, factory and warehouse occupancy rates still dipped because demand was outstripped by the abundance of new supply. The factory vacancy rate went up 0.3 of a percentage point (ppt) QoQ to 11.1%, the highest level on record. Likewise, the warehouse leasing market also saw a vacancy rate increase of 0.4 of a ppt QoQ to 11.5%.

Consequently, rents for industrial properties inched down 0.1% QoQ in Q2/2018. According to JTC Corporation (JTC), single-user factory and warehouse rental indices saw a 1.6% and 0.5% QoQ decline respectively. However, for

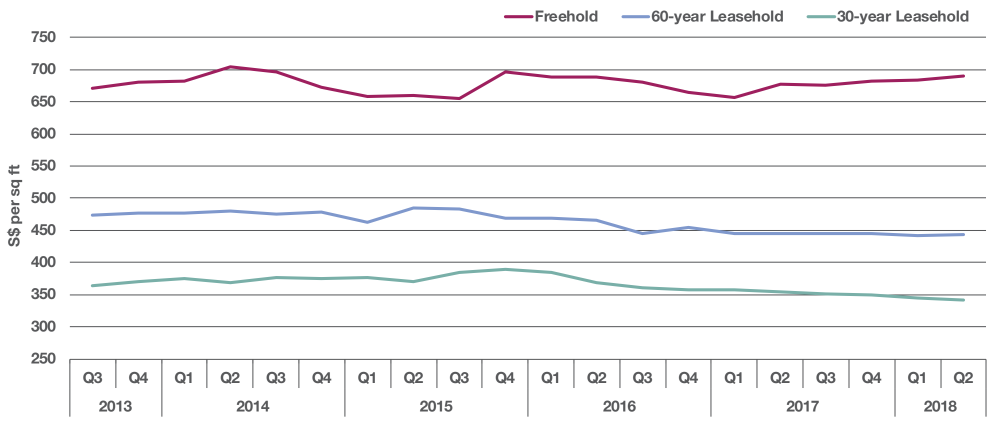
1 Singapore Institute of Surveyors and Valuers REALink caveats as of 20 April 2018.

2 Excluding industrial sales in Q3/2017 where there was a surge in total transaction value due to some big-ticket factory land resale transactions.

3 Excluding business park spaces, only comprises factory and warehouse spaces.

GRAPH 1

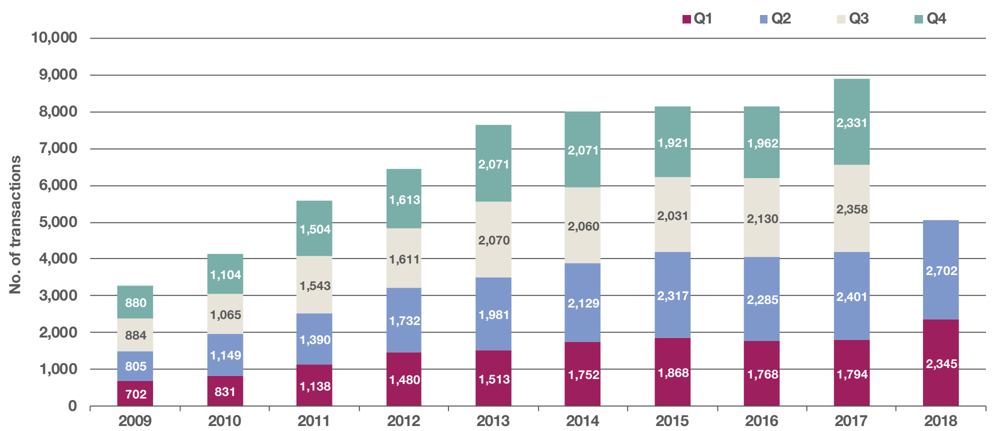
Prices of upper-storey factory and warehouse units, Q3/2013 – Q2/2018



Source: URA, Savills Research & Consultancy

GRAPH 2

Leasing volumes of factories and warehouses, 2009 – Q2/2018



Source: JTC, Savills Research & Consultancy the multiple-user factory market, there was a slight increase of 0.2% over the first quarter. According to the Savills basket of industrial properties, the average prime monthly rent for factory and warehouse spaces slipped 0.2% QoQ to S$1.14 per sq ft.

Business parks and high-tech spaces

There was some pick-up in demand for business park space in Q2/2018, but it was not evenly distributed across the island. The take-up in the central region, where newer business park developments such as Mapletree Business City and Science Park are located, improved 1.4 ppts QoQ to 10.8%, the lowest rate since 2014. However, the overall vacancy rate was dragged down by falling occupancies in older business park developments in the east and west areas.

The vacancy rates of Technopark @ Chai Chee and International Business Park surged to record highs of 30.5% and 26.4% respectively. Alongside an addition of 97,000 sq ft of new business park space at Changi Business Park (CBP), the vacancy level in CBP rose 1.9 ppts QoQ to 14.3%, the highest since 2016. Thus, the monthly average rent for business park space stayed flat at S$4.05 per sq ft in Q2/2018.

With limited supply in the pipeline, the high-tech industrial rental market held firm with 1.1% growth from last year. The monthly average prime rent for high-tech space inched up 0.1% QoQ to S$3.31 per sq ft in Q2/2018.

TABLE 1

Business park leasing transactions

	Total value (S$)	Median rent (S$ per sq ft)
Changi Business Park	43,837	4.00
International Business Park	516,545	4.16
Science Park I	153,009	3.95
Science Park II	312,176	3.98
Mapletree Business City	1,617,331	5.85

Source: JTC, Savills Research & Consultancy

OUTLOOK

The prospects for the market

According to the MTI's latest announcement, economic growth in 2018 is expected to be steady, expanding between 2.5% and 3.5%. The manufacturing sector is likely to continue driving economic growth, albeit at a moderate pace. The risk of escalating US-China trade tensions may weigh on the growth of a trade-dependent economy like Singapore's, possibly further restraining the sector's growth.

The pick-up in oil prices after the plunge in 2014 could however sow some growth in the economy. Nevertheless, the growth is expected to be gradual as the recovery in oil prices must be sustainable to restore investors' confidence in the market. As such, industrial rents may not potentially start to firm until late 2018 or 2019.

In the near term, rents for industrial spaces will likely continue to face pressure amid an upcoming supply influx of 11.7 million sq ft of industrial space this year. The single-user factory sector may face sizable headwinds due to an addition of 7.7 million sq ft of new stock to the market in 2018.

TABLE 1

Rental forecast for general industrial factory and warehouse space

Period	YoY% change industrial factory and warehouse rents
2018F	-1.0% to -2.0%
2019F	-0.5% to +0.5%
2020F	+1.0%

Source: Savills Research & Consultancy

While things may still look unsettled for general industrial space, there is a bright spot in the sector: industrial buildings approved for food handling. These spaces are located within the food zones. The push by the authorities to up productivity levels in the Food and Beverage sector (F&B) is shifting food preparation activities from on-site to offsite Central Kitchens (CK). These CKs are now in hot demand by both large F&B operators for in-house food preparation and set-ups that purvey either a general or bespoke product to a myriad of F&B customers. Rents for industrial properties with such approved use are firm and, depending on location, can range from S$2.50 per sq ft to S$3.50 per sq ft per month, much higher than the average S$1.14 per sq ft per month recorded for our basket of general industrial space.

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