

Briefing Industrial sector

October 2012



Image: Northpoint Bizhub

SUMMARY

A sector battling against the economic odds.

- Weak sentiment and soaring prices continued to rein-in sales following a 28% year-on-year (YoY) dip in transaction volume last quarter.
- According to the SISV-REALink, 729 caveats for strata factories and warehouses were lodged in Q3, significantly less than the 1,405 caveats registered in the same period last year.
- Prices for 60-year leasehold upper-storey factory and warehouse units tracked by Savills climbed at a more modest pace of 3% to S\$437 per sq ft.
- Leasing activity remained firm as more industrialists deferred their purchase plans amid sky-high prices and renewed their leases instead.
- Monthly rents stabilised at S\$2.0 per sq ft for upper-storey factory and warehouse units and S\$3.0 per sq ft for high-tech units.
- With more 30-year leasehold projects expected to enter the market, how well prices will hold up will depend on the lending policies of banks in financing buyers of such projects.
- Over 20 million sq ft of factory and warehouse space is expected to be completed in 2013, substantially more than the past decade's average of around 9 million sq ft annually.

.....
 "Moving forward, only well-located projects may be able to ride through an expected supply onslaught."
 Alan Cheong, Savills Research

➔ **Macroeconomic overview**

Singapore's non-oil domestic exports (NODX) plummeted 11% YoY in August, reversing four months of positive growth. Among the disturbing signs, NODX to China fell 4% after expanding 8% in July, as the economic giant appeared to be losing steam in its struggle against the global trade slump. Consequently, Singapore's manufacturing output (excluding biomedical) declined 0.4% and 5.4% YoY in July and August respectively, while the Purchasing Managers' Index posted a reading below 50 for all three months in Q3.

Sales market

Weak sentiment and soaring prices continued to rein-in sales this quarter following a 28% YoY dip in the preceding quarter. According to the SISV-REALink, 729 caveats for strata factories and warehouses were lodged in Q3¹, significantly less than the 1,405 caveats registered in the same period last year. The full Q3 number is likely to be similar to that in Q3/2010.

¹ SISV-REALink caveat record as of 1 October 2012.

TABLE 1 **Major projects in the pipeline, 2013–2015**

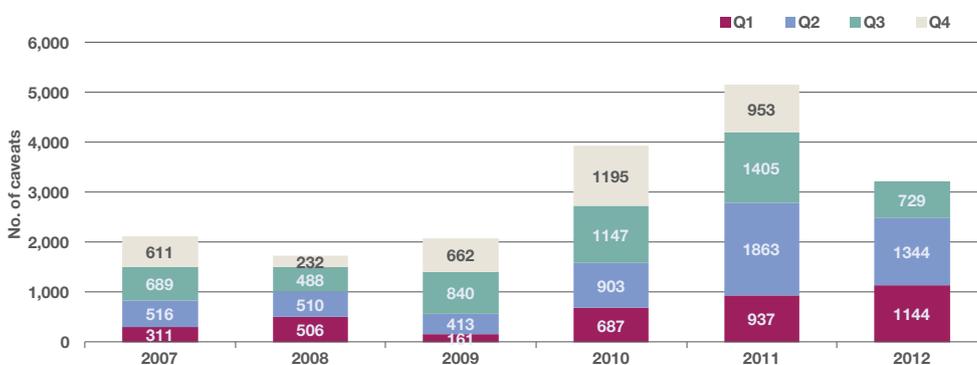
Location	Address	GFA (sq ft)	Estimated completion
8B @ Admiralty	Admiralty Street	331,000	2013
North Spring Bizhub	Yishun Industrial Street 1/ Yishun Street 23	1,253,000	2013
Woodlands 11	Woodlands Close	869,000	2013
Premier @ Kaki Bukit	Kaki Bukit Avenue 4	807,000	2014
Primz Bizhub	Woodlands Avenue 12/ Woodlands Drive 64	552,000	2014
Synergy @ KB	Kaki Bukit Road 4	559,000	2014
Ark @ Gambas	Gambas Avenue	576,000	2015
Oxley Bizhub 1	Ubi Road 1	938,000	2015
Oxley Bizhub 2	Ubi Road 1	333,000	2015
Woodlands Horizon	Woodlands Avenue 12/ Woodlands Drive 64	504,000	2015

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

Notwithstanding the slower sales, industrial prices continued to surge as some industrialists remained undeterred by the hefty price tags amid the current low interest-rate environment. In the meantime, 60-

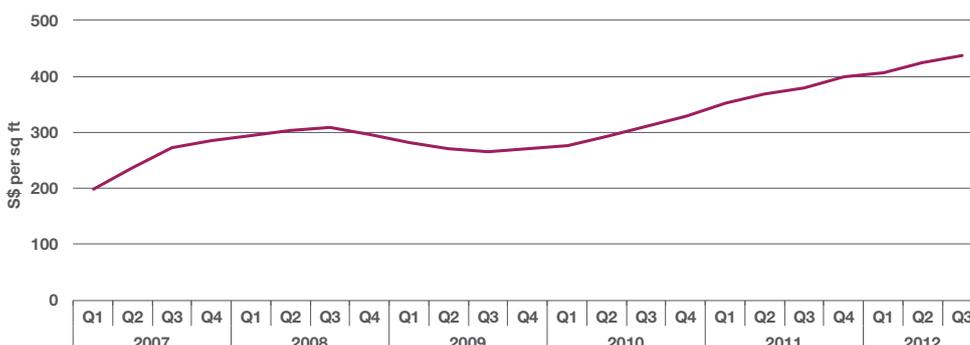
year leasehold industrial properties have become more valuable as the government halved the tenures of all industrial sites to be sold in the 2H/2012 Government Land Sales (GLS) programme to 30 years.

GRAPH 1 **Sales volume of strata factories and warehouses, 2007–Q3/2012**



Source: SISV-REALink, Savills Research & Consultancy

GRAPH 2 **Prices of 60-year leasehold upper-storey industrial units, 2007–Q3/2012**



Source: Savills Research & Consultancy

Prices for 60-year leasehold upper-storey factory and warehouse units tracked by Savills climbed at a more modest pace of 3% in Q3 to S\$437 per sq ft, surpassing Q3/2008's peak by 41%.

The priciest 60-year leasehold units in Q3 were found at Cendex Centre, The Commerze@Irving and Oxley Bizhub 2 where upper-storey units changed hands at an average price of S\$780, S\$618 and S\$610 per sq ft respectively. In September, 60-year leasehold strata-titled factory Ark@Gambas was launched for sale at prices starting from S\$350 per sq ft. Unit sizes typically range from 1,600 sq ft to 2,700 sq ft.

However, moving into 2013, the number of 60-year leasehold projects being marketed will start to decline dramatically given that all government industrial sites for sale are on 30-year leases or shorter. Technically, 30-year leasehold units would be of a lower value and will distort the price index.

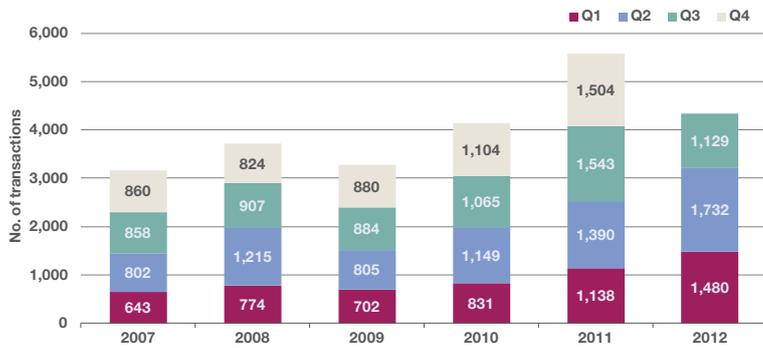
Leasing market

Leasing activity remained firm in Q3 as more industrialists deferred their purchase plans amid sky-high prices and renewed their leases instead. A total of 1,129 leasing transactions

were recorded in the first two months of Q3. The full number for Q3 could therefore be close to Q2's record of 1,732 deals. Monthly rents stabilised at

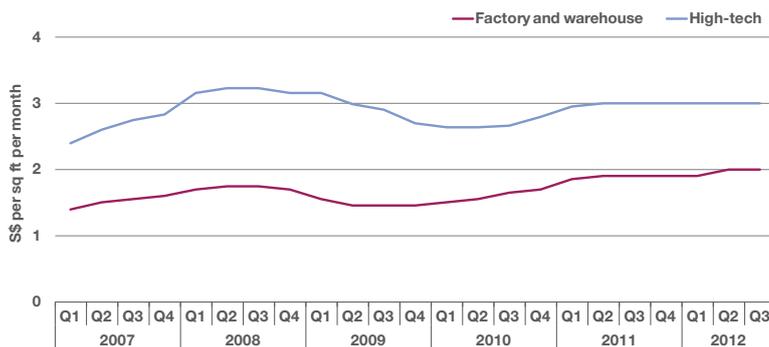
S\$2.0 per sq ft for upper-storey factory and warehouse units and S\$3.0 per sq ft for high-tech units. ■

GRAPH 3
Leasing volume of factories and warehouses, 2007–Aug 2012



Source: URA, Savills Research & Consultancy

GRAPH 4
Rents of upper-storey industrial properties, 2007–Q3/2012



Source: Savills Research & Consultancy

OUTLOOK

The prospects for the market

The outlook for the industrial market is tainted by dismal macroeconomic indicators and the mounting risk of a technical recession. As for prices, how well they can hold up will depend on the lending policies of banks in financing buyers, particularly for the new 30-year leasehold units. If financing continues to be easily available, prices will still hold up in the medium term, despite the global economic problems. In the longer term, however, a potential supply glut is expected to apply pressure on prices, particularly for projects that are not well-located. More than 20 million sq ft of factory and warehouse space is expected to be completed next year, significantly higher than the past decade's average of around 9 million sq ft annually. Meanwhile, the rental market will continue to benefit from the current high prices of industrial properties. We therefore expect rents to hold firm over the next three months.

The short leasehold tenure poses a conundrum from the perspective of the price index. As more projects built on new GLS sites with tenures of 30 years or less come to the market, they will begin to crowd-out the influence of 60-year or freehold projects. Given that the 30-year leasehold units would be priced lower on a per sq ft basis, the index for 2013 may be artificially weighed down. Greater clarity may be gained if instead of an existing single price index, the statistics from URA are able to present two indices – one for 30-year leaseholds, the other for 60-year leaseholds.

Please contact us for further information

Savills Singapore



Christopher J Marriott
CEO, Southeast Asia
+65 6415 3888
cjmarriott@savills.asia



Dominic Peters
Director, Industrial
+65 6415 3638
dpeters@savills.com.sg



Alan Cheong
Director, Singapore
+65 6415 3641
alan.cheong@savills.com.sg



Simon Smith
Senior Director, Asia Pacific
+852 2842 4573
ssmith@savills.com.hk

Savills plc

Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 500 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.

This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.