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Savills World Research
Singapore

Briefing
Industrial sector

October 2013

Image: Oxley Bizhub 2, Ubi Road

SUMMARY

Sales have moderated but the rental market continues to strengthen.

- In Q3/2013, 618 caveats were lodged, registering a 34.0% drop quarter-on-quarter (QoQ) and 52.0% year-on-year (YoY).
- Savills basket of upper-storey factory and warehouse units saw prices of 60-year leasehold properties increase by 1.1% to S$474 per sq ft.
- Freehold and 30-year leasehold prices slipped by 0.8% and 1.1% QoQ to S$671 and S$363 per sq ft respectively.
- Rental activity continued to excel as rental volumes are expected to match the previous high.
- Business park activity remained resilient.

"After years of watching industrial prices increase at a breakneck speed, the market is stabilising to pace sedentary economic fundamentals." Alan Cheong, Savills Research

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Macro economic overview

The Purchasing Managers' Index (PMI) was lower in September 2013 at 50.5 as new export orders faced a further slowdown. Non-oil domestic exports also indicated a 1.2% YoY decline in September. Notwithstanding this weakness shown in the two key economic indicators, Singapore's Q3 GDP registered a surprising 5.1% YoY increase.

From the global perspective, the US, Japan and the eurozone have seen their economies improving in the past three months. The employment rate has also been recovering in both the US and the eurozone. On top of this, eurozone factory output experienced robust growth in August, and in the Pacific, the Japanese may be on their way to exiting their long-standing deflationary problems. If major negatives, like the US defaulting on its debt payment, do not materialise, the major industrial economies should continue to grow.

Sales market

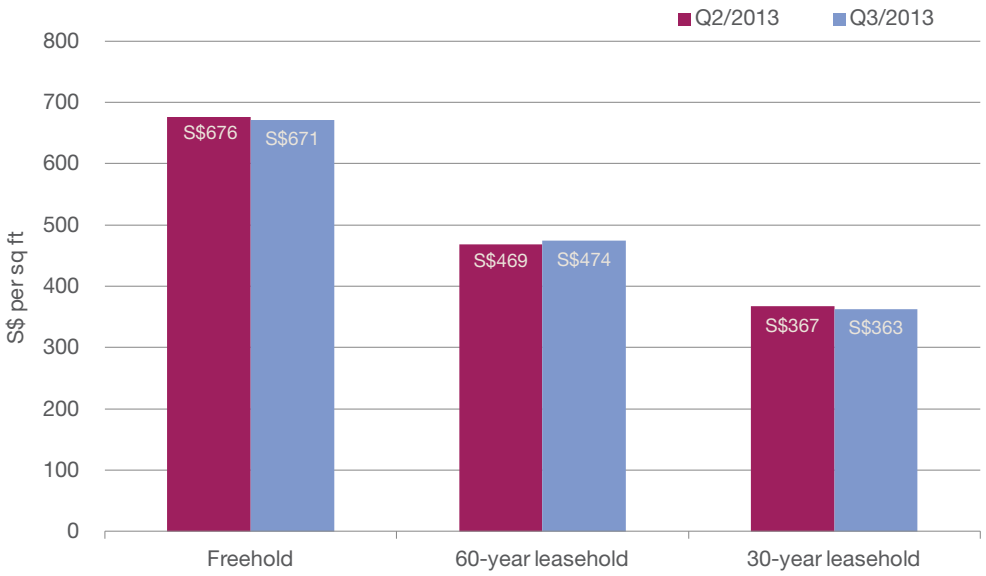
Compared with the previous quarter, sales volumes dropped by one-third in Q3/2013. The total number of strata factory and warehouse caveats lodged for the quarter was 618, registering a 34.0% decline from Q2/2013 and 52.0% from the same period last year[1]. This is also the first time since Q2/2009 that transactions have dropped to the 600 mark. The massive decline was largely due to the recent total debt servicing ratio (TDSR) framework which came into force on 29 June 2013, leading to reduced borrowing limits for purchasers. Other than that, the uncertainties behind the US Federal Reserve's intentions to taper the Quantitative Easing programme also tempered investors' commitment levels. All these are in addition to the previously imposed Seller's Stamp Duty (SSD) which, when taken together, have dampened sentiment in the industrial property sector.

Although the market lost the buying fervour, prices of industrial properties tracked by Savills experienced only minor corrections in Q3/2013. Freehold and 30-year leasehold prices slipped by 0.8% and 1.1% QoQ to S$671 and S$363 per sq ft respectively, whereas 60-year leasehold properties still managed to eke out an increase of 1.1%, from S$469 to S$474 per sq ft QoQ. Despite a sharp drop in transaction volumes, prices managed to hold up well, indicating that sellers were maintaining their asking prices and were under no pressure to slash prices in order to sell.

1 Singapore Institute of Surveyors and Valuers (SISV) REALink caveats as of 18 October 2013.

GRAPH 1

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



Source: Urban Redevelopment Authority (URA), Savills Research & Consultancy
*Including single-user and multiple-user factories.

In July, JTC officially opened its small footprint standard factories along Buroh Street. The new-generation 30-year leasehold factories were built to assist small and medium enterprises in increasing their competitiveness, as well as land productivity. Based on JTC's factsheet, the price was below S$200 per sq ft GFA, significantly lower than the S$361 per sq ft price tag for upper-storey units of similar tenure tracked by Savills. The building design affords flexibility which, when complemented by the strong value proposition for industrial users, increased the take-up rate for these factories. Not surprisingly, all units offered have been sold. The next batch is expected to be released in Q4/2013.

Leasing market

Rental volumes for factories and warehouses were high in July and August, with a total of 1,369 transactions. For the third quarter as a whole, the number is expected to match last quarter's all-time high of 1,981 transactions, as the global economy continues to recover, thereby leading to increasing activity for the manufacturing sector. Tenancy renewals continue to dominate the rental market.

Despite the anticipated strong performance in leasing volumes, rental rates remained unchanged as completed stock is still aplenty. Factory and warehouse rental rates held firm at S$2.00 per sq ft with hi-tech units maintaining at S$3.00 per sq ft.

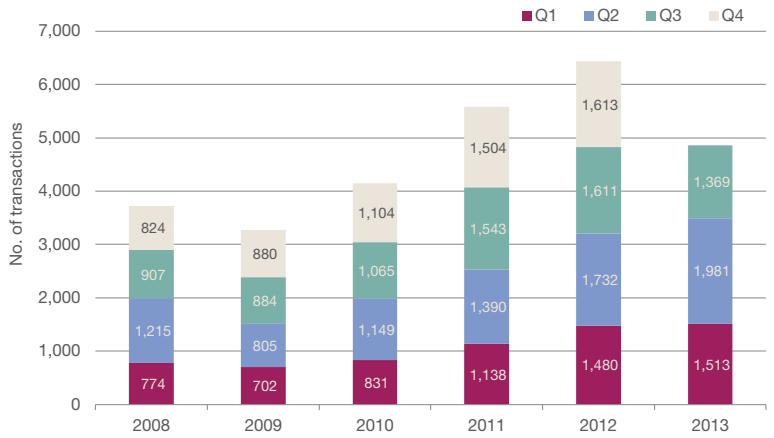
AusGroup, a Singapore-listed firm, signed a sale-and-leaseback deal with Boustead Trustees Pte Ltd to sell its fabrication facilities at 36 Tuas Road for S$39.4 million, 11.7% below its reported valuation. The lease to AusGroup will be up to May 2025 with an option to renew for five more years. It appears that AusGroup is hedging against possible rental rises in the long term.

Business park

There were 34 rental transactions in business parks in the first two months of the reviewed quarter, falling 20.9% short of Q2/2013's results with one month to go, while rental rates remained stable at S$4.00 per sq ft. One-North made a comeback in Q3/2013 after a non-productive previous quarter, but its median rent has dropped from S$5.10 to S$4.13 per sq ft.

GRAPH 2

Leasing volumes of factories and warehouses, 2008–Q3/2013*



Source: URA, Savills Research & Consultancy
*Q3/2013 only includes Jul and Aug figures.

TABLE 1

Business park leasing volumes and values, Q3/2013

	No. of deals	Total value (S$)	Average value per transaction (S$)	Median rent (S$ per sq ft)
Changi Business Park	8	197,055	24,632	3.95
International Business Park	10	156,615	15,662	4.40
Mapletree Business City	7	242,769	34,681	5.60
Science Park	7	148,483	21,212	3.90
One-North	2	176,900	88,450	4.13

Source: URA, Savills Research & Consultancy

OUTLOOK

The prospects for the market

Singapore's PMI is not expected to improve significantly, as it has not contracted drastically in the past. The recent addition of the TDSR on top of the previously implemented SSD has further hampered the growth prospects of the industrial property market. However, 60-year leasehold industrial properties have the highest probability for price increments compared with its freehold and 30-year leasehold counterparts due to limited supply and more affordable prices, which are lower than freehold and not too much higher than 30-year leasehold prices.

As prices for industrial properties become less affordable for industrial space users, industrialists may turn to renting. This would lead to a rise in rental activity, particularly when the global economy is recovering. Nevertheless, rental rates may remain flat in the face of ample stock and pipeline supply.

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