

Briefing Industrial sector

October 2014

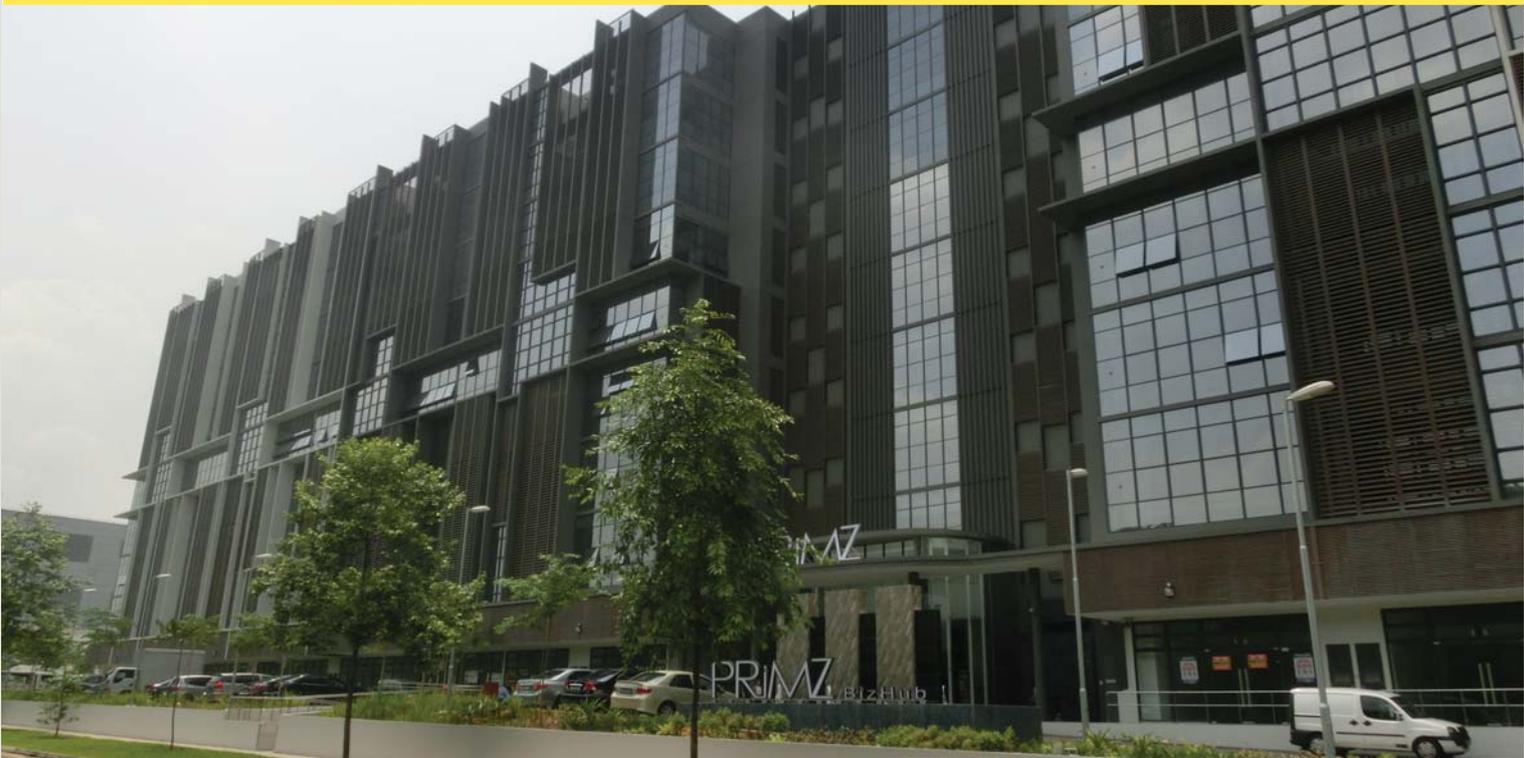


Image: Primz BizHub, Woodlands Close

SUMMARY

More opportunities for bargain seekers in the sales market.

- Sales volume declined 21.9% quarter-on-quarter (QoQ) and 56.7% year-on-year (YoY) in Q3/2014.
- Upper-storey prices of 30-year leasehold factories and warehouses tracked by Savills rose 1.9%, while 60-year leasehold and freehold units slipped 1.0% QoQ.

- Leasing volume shrank 3.2% QoQ to 2,060 deals.
- Business Park space saw a 37.7% YoY growth in rental volume.

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 “Resilience prevails in the face
 of economic restructuring.”
 Alan Cheong, Savills Research

➔ **Macro economic overview**

The global economy recorded mixed results in Q3/2014. Among the developed nations, US economic growth continued to strengthen, with unemployment rates falling to a six-year low of 5.9% in September and factories having their strongest quarter in over three years. However, the Eurozone has been stagnant, with deflation spreading across the region, as seen from September's inflation falling by 0.3%. Major economies in Asia such as Japan and China were similarly lacklustre, as Japan's economic stimulus has yet to produce positive results while a slowdown is pervading across the latter.

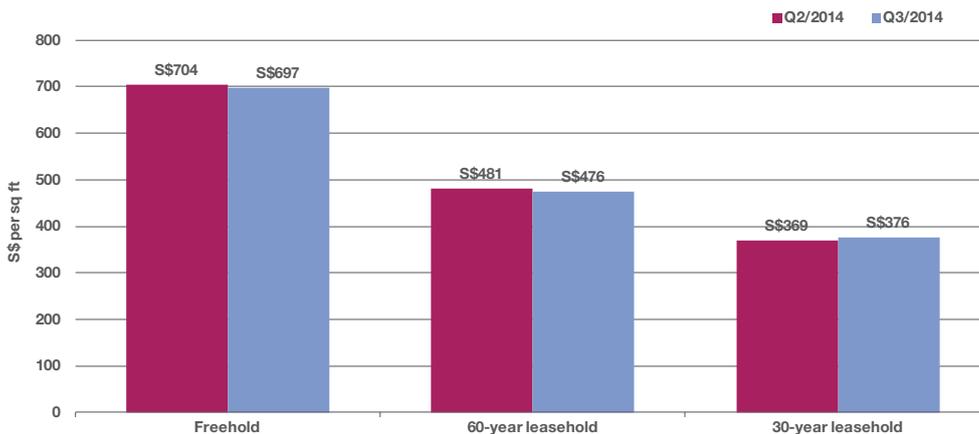
Consequently, these factors have had an adverse impact on Singapore's

manufacturing sector, which is also affected by the local restructuring process such as the reduction of reliance on overseas manpower. The Republic's overall Purchasing Manager's Index (PMI) was 50.5 in September, slightly above August's 49.7, appearing to have stagnated this year (a reading below 50 signifies a contraction). Non-oil domestic exports (NODX) rose by only 0.9% YoY in September after a sharp increase of 6.0% in August. The sharp increase could have been due to the volatile pharmaceutical sector and therefore may not indicate a sustainable export growth, as September's figures appear to suggest. According to flash estimates, the local economy grew 2.4% YoY in Q3/2014, much lower than the 4.8% growth seen in Q1/2014.

Sales market

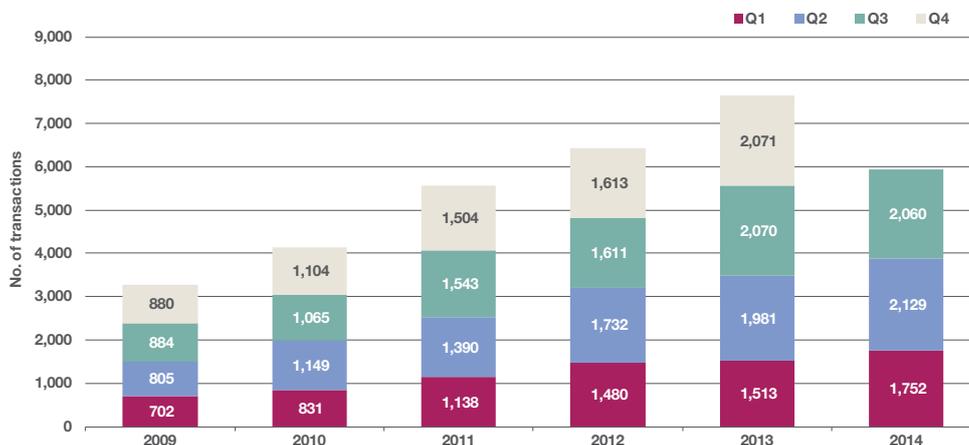
Industrial property sales volume in Q3/2014 remains sluggish, with only 420 caveats lodged for strata factories and warehouses, leading to a decline of 21.9% QoQ and 56.7% YoY¹. As the quarter has just ended, the record of caveats has yet to be entirely accounted for and thus we expect the final figure to be close to the 538 caveats recorded in Q2/2014. The anaemic volume relative to previous years has shown that there is still a larger price gap between buyers and sellers. The economic restructuring process has increased the reluctance of buyers to increase their bid prices. Nevertheless, we have received more enquiries for food factory units for sale which may indicate that there is still demand for units that are specific to some industries.

GRAPH 1 **Prices of upper-storey factory and warehouse units, Q2/2014 and Q3/2014**



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

GRAPH 2 **Leasing volumes of factories and warehouses, 2009–Q3/2014**



Source: URA, Savills Research & Consultancy

Prices of Savills basket of 60-year leasehold and freehold upper-storey strata factories and warehouses slipped by 1.0% QoQ to S\$476 and S\$697 per sq ft respectively. However, prices for 30-year leasehold units have increased 1.9% to S\$376 per sq ft in Q3/2014. Recently, there have been a few developers that have adopted a tiered-discount sales strategy. This shows an increase in the willingness of developers to meet the demands of buyers. However, there will be a limit for the discounts as many of the developments are built on land that was purchased at a high price.

Leasing market

Activity in the industrial leasing market slowed in Q3/2014. The reviewed quarter saw a 3.2% QoQ decline and is now at Q3/2013 levels with a total of 2,060 deals. The YoY growth is relatively slow as compared to the historical YoY growth for the third quarter in the past four years, averaging at 24.6% per year. The tepid market is a result of the slowdown in the global economy and also the restructuring of the labour market. Tenancy renewals continue to dominate the market.

Rents for industrial properties remained unchanged in Q3. Monthly rents of factory and warehouse units stand at S\$2.00 per sq ft, while high-tech unit rents stayed at S\$3.00 per sq ft per month.

¹ Singapore Institute of Surveyors and Valuers REALink caveats as of 17 October 2014.

TABLE 1 **Business park leasing volumes and values, Q3/2014**

	No. of deals	Total value (S\$)	Average value per transaction (S\$)	Median rent (S\$ per sq ft)
Changi Business Park	13	187,777	14,444	4.00
International Business Park	24	578,606	24,109	4.16
Mapletree Business City	2	140,510	70,255	4.91
One-North	7	527,718	75,388	4.75
Science Park 1	13	503,710	38,747	3.99
Science Park 2	14	224,611	16,044	4.00

Source: URA, Savills Research & Consultancy

Business Parks

Leasing activity for business parks remained strong in Q3/2014, with 73 leasing deals recorded island-wide. This is 17.0% short of last quarter's figures, but 37.7% higher than Q3/2013.

Median rents for Changi Business Park, International Business Park and Science Park were aligned, ranging from S\$3.99 to S\$4.16 per sq ft per month in the

reviewed quarter. Mapletree Business City (MBC) and One-North continue to lead, with much higher rents than the rest, although the median rents have come off from the previous three quarters which saw median rents of over S\$5.20 per sq ft per month. However, it is likely that the lower rents were the results of larger space commitments as we note that the average value per transaction has increased in both MBC and One-North. ■

OUTLOOK

The prospects for the market

Weakness in major economies around the globe will create uncertainties for the Singapore manufacturing sector. We therefore foresee industrialists taking a longer time to decide on business expansion and this may lead to lower demand for factory space in the coming months. However, manufacturers who were banking on the global economic recovery previously may require more space to store their additional inventories, which is seen in the rising trend in warehouse rental volume.

For the sales market, Q4/2014 volume is likely to be on a par with the third quarter but lower than the average recorded over the past five years. Attractive deals may come through as some developers have tried to move units by offering tiered price discounts. This being said, we are not overly optimistic that prices will fall significantly as developers can opt to lease the units instead of selling at a loss. It has been this factor that has made prices resilient in the face of a slowdown in the manufacturing sector.

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