Briefing
Industrial sector

December 2017

Image: Reebonz Ecommerce Hub

SUMMARY

Some demand for traditional industrial spaces could be substituted by high-tech and business parks as the shift to more productive industries continues.

- In Q3/2017, the Singapore economy grew by 4.6% year-on-year (YoY).
- After a snap recovery in Q2/2017, industrial sales volume slipped 4.5% quarter-on-quarter (QoQ) to 319 transactions in Q3/2017.
- Amid lingering uncertainties among industrialists, freehold upper-storey and warehouse properties recorded a slight dip of 0.1% in price from the last quarter to S$676 per sq ft.
- The price of 30-year leasehold upper-storey factory and warehouse units also decreased 1.0% QoQ to S$350 per sq ft. Conversely, the price for 60-year leasehold industrial properties ended a two-quarter dip and stayed at S$445 per sq ft.
- Leasing transactions for the quarter was at a relatively healthy level of 2,358, 10.7% more than the 2,130 leases a year ago.
- As a result of rising vacancies, the average prime monthly rent for factory and warehouse sector plunged 7.4% QoQ to S$1.20 per sq ft. The prime rents of high-tech industrial spaces showed more resilience and continued to inch up 0.2% QoQ to S$3.28 per sq ft.
- The monthly average rent for business park spaces stayed flat at S$4.05 per sq ft.

"Improving manufacturing activity is confined mainly to the technology sector and does not necessarily spill over to the industrial space market in general."
Alan Cheong, Savills Research

MCI (P) 110/03/2017
Company Reg No. 198703410D

Macro economy

The advanced estimates released by the Ministry of Trade and Industry (MTI) showed that the Singapore economy grew by 4.6% YoY in Q3/2017. This was the fastest pace of expansion in more than three years. This estimated economic growth is likely to be revised upwards by the expansion in Singapore's manufacturing output in September. Data published by the Economic Development Board (EDB) shows that the manufacturing sector remained the main economic driver, expanding by 18.6% YoY in Q3/2017, which is more than double of the 8.2% growth in the preceding quarter. The surge largely resulted from healthy growth across all clusters other than transport engineering.

Despite the initial contraction in employment and falling inventory levels, the Singapore Purchasing Manager's Index (PMI) was lifted by improvements in new domestic and export orders, as well as factory output. The manufacturing sector, in particular the electronics industry, continued to perform as the key economic driver and posted strong growth throughout Q3/2017, the fastest pace of growth since April 2011. As all key indicators saw a faster rate of expansion, Singapore's factory activity expanded at 52.0 in September, marking the 13th straight month of expansion. While the stock of finished goods expanded slower, due to higher new orders, manufacturing employment recovered after four months of contraction.

Owing to the surging global demand for semiconductors and related equipment, electronics shipments had been the key driver behind Singapore's robust trade performance until August. However, following a 7.6% and 16.7% YoY growth in July and August respectively, non-oil domestic exports (NODX) ended the four-month expansion with a 1.1% YoY dip in September. This was as a result of a decline of 7.9% in electronics exports after expanding for 10 consecutive months in August. Non-electronics exports continued to grow at a moderated pace for the fourth month.

Sales market

After a 65.3% QoQ recovery in Q2/2017, the industrial sales volume slipped 4.5% QoQ to 319[1] in Q3/2017. Nonetheless, the total value of sales transactions was more than S$2.6 billion, exceeding the highest record of S$2.59 billion in Q3/2013. This was led by an increase in transacted values of both factories and multi-user warehouses for the quarter.

The total sales value of factories was almost S$2.6 billion in Q3/2017, compared to S$400 million in the previous quarter. The surge was mainly lifted by a transaction – the factory land resale of Jurong Aromatics Complex which was sold for S$1.97 billion in late August to ExxonMobil. Excluding this transaction, the remaining sales of almost S$660 million is still above the average sales of S$570 million in 2016, and the quarterly sales of S$400 million in Q2/2017. It was largely contributed by the land resale of Datapulse Industrial Building at Tai Seng Drive (S$53.5 million) and a factory at Ang Mo Kio (S$40.9 million) in July. The Datapulse Industrial Building was sold at a relatively high unit price of S$678 per sq ft, as it is a six-storey building that comes with production and warehouse areas as well as ancillary offices, all sited on a 78,900-sq ft plot with a 30+30 year lease. On the contrary, the factory in Ang Mo Kio was transacted at a lower unit price of S$106 per sq ft because of the shorter remaining lease of 23 years (60 year leasehold commencing from 01/08/1980) and a larger land area of 385,780 sq ft.

In Q3/2017, multi-user warehouse transactions made up 6.2% (S$50.7 million) of the total transactions, up from 1.9% (S$14.2 million) last quarter. The warehouse development at Playfair Road which was sold for S$17.25 million has the highest transacted unit price of S$2,338 per sq ft. The reason could be mainly due to the nature of its freehold tenure, location at the Central Region, as well as the smaller land area of 7,380 sq ft.

Even though sales of freehold industrial properties contributed to the jump in transacted values in the reviewed quarter, the freehold upper-storey and warehouse properties in the Savills basket recorded a slight dip of 0.1% in price from last quarter to S$676 per sq ft. This could be due to the plight among most industrialists as the recent improvement in the manufacturing sector may just be concentrated on the electronics sector. Consequently, those manufacturers not benefiting from the upturn in the sector may be reluctant to fork out high price for the sake of owing freehold industrial properties.

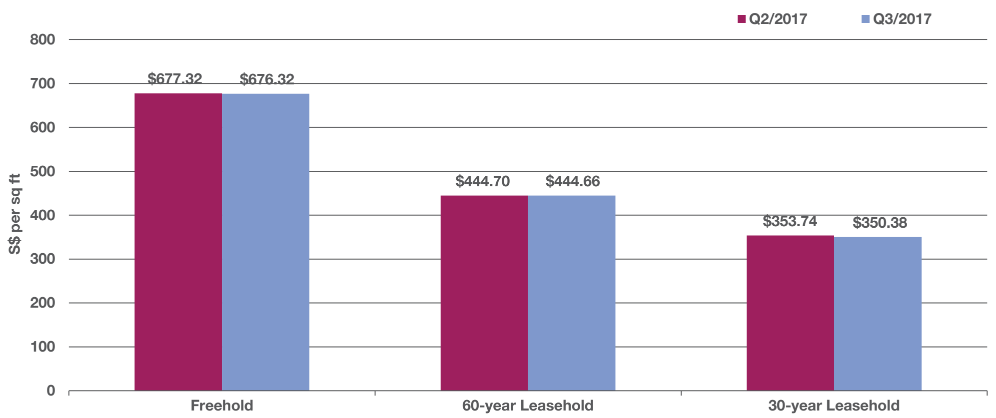
The 30-year leasehold industrial properties are less resilient due to its leasehold nature. Owners continued to give in and lowered prices. From the Savills basket of 30-year leasehold upper-storey factory and warehouse units, prices decreased 1.0% QoQ to S$350 per sq ft. This is the lowest on record since the basket was constituted in 2013.

On the upside, the price for 60-year leasehold industrial properties ended a two-quarter dip and remained unchanged from last quarter at S$445 per sq ft. The moderation could have been attributed to the significant growth in manufacturing sector for the past few quarters, but the market still remains soft as sustainability of growth is

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

GRAPH 1

Prices of upper-storey factory and warehouse units, Q2/2017 and Q3/2017



Source: Urban Redevelopment Authority (URA), Savills Research & Consultancy questionable. Hence, the price is close to the lowest record since 2013.

Leasing market

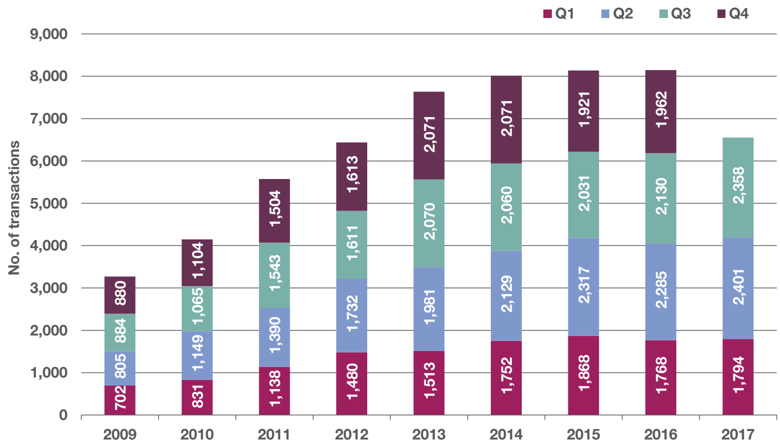
In Q3/2017, leasing demand for industrial space was relatively healthy at 2,358 leases. Even though there was a 1.8% dip from last quarter, it was still 10.7% more than the 2,130 leases a year ago. The sustained positive demand for industrial space could be supported somewhat by the recovery in manufacturing and trade activities. As purchasing could still be deemed to be too risky for some industrialists who doubt the sustainability of this recovery, more preferred leasing rather than owning.

Since early-2017, the take-up of factory spaces has been faring better than warehouse. The net demand for factory spaces in Q3/2017 reached the highest level for this year at almost 1.8 million sq ft. This was a 207.1% surge in net demand from the last quarter. Therefore, although factory net supply came in at 2.1 million sq ft, the vacancy rate maintained at 11.1%. On the contrary, the vacancy rate for warehouse space increased 0.6 percentage points (ppts) QoQ to 12.5% in Q3/2017, reaching the highest record since 2006. This was resulted from the weak net demand of 883,000 sq ft which was far exceeded by the 1.8 million sq ft of new warehouse supply.

Despite gaining support from rising demand for factory spaces, the average rent for factory and warehouse sector in Q3/2017 was dampened by the rise in warehouse vacancies. As such, the average prime monthly rent for factory and warehouse sector plunged 7.4% from last quarter to its lowest rental record of S$1.20 per sq ft.

GRAPH 2

Leasing volumes of factories and warehouses, 2009–Q3/2017



Source: URA, Savills Research & Consultancy

In the same quarter, the monthly prime rents of high-tech industrial spaces showed greater resilience, inching up 0.2% QoQ to S$3.28 per sq ft. This is likely to be driven by the Industry Transformation Map (ITM) for manufacturing cluster where the government aims to shift the industry mix towards higher-value manufacturing activities.

In Q3/2017, the demand for business parks saw a slight increase. Vacancies dropped 0.2 ppt to 14.1%, the lowest since the data series was constituted in 2013. There were 89 leasing deals registered in the reviewed quarter, up 50.8% from the 59 deals in Q2/2017. The surge in deals accounted for a total transacted value of nearly S$2.7 million, more than double the S$1.1 million transacted in the preceding quarter.

There was an improvement of 3.4 ppts in the occupancy level to 81.6% in Mapletree Business City (MBC) and Science Park, its highest record since 2015. This is probably due to the healthy take-up level of 25 leases in Science Park 1. In addition, the 3.3 ppts rebound in CleanTech Park's occupancy level to 19.6% is the other major contributor to the rebound in overall occupancy rate.

Even though the overall demand for business park spaces has been recovering for the past five consecutive quarters, there were still no signs of rental appreciation in Q3/2017. Other than business parks such as MBC which commands a rent premium, most landlords were still conservative with their rents. As such, the monthly average rent for business park spaces stayed flat at S$4.05 per sq ft in the quarter.

TABLE 1

Business park leasing volumes and values, Q3/2017

	No. of deals	Total value (S$)	Average value per transaction (S$)	Median rent (S$ per sq ft)
Technopark @ Chai Chee	11	247,389	22,490	3.20
Changi Business Park	10	348,609	34,861	3.85
International Business Park	24	380,129	15,839	3.95
Science Park I	25	238,104	9,524	3.90
Science Park II	7	103,554	14,793	3.95
One-North	10	841,053	84,105	5.55
Mapletree Business City	2	528,973	264,487	5.98

Source: URA, Savills Research & Consultancy

OUTLOOK

The prospects for the market

Global growth is improving as industrial activity showed signs of recovery after two years of slowdown. According to the World Bank's June 2017 Global Economic Prospects report, global economy is expected to see a stronger growth of 2.7% in 2017 and 2.9% in 2018 to 2019. For emerging and developing economies, last year's growth of 3.5% is likely to pick up to 4.1% in 2017. However, there are still risks such as rising trade protectionism and economic policy uncertainties, which could possibly disrupt the growth.

Noting that the global economy is likely to continue its steady growth in the near term, the Monetary Authority of Singapore (MAS) also expects Singapore's economy to expand at the upper end of the range between 2.0% to 3.0% this year. The local economic recovery is largely supported by trade-related sectors, which were boosted by the sustained rise in global electronics demand.

Despite the improvement in manufacturing performance in the recent quarters, it is unlikely to drive up the rents for factory and warehouse space as the government placed more emphasis in diversifying into new value-adding and productive growth markets. With the implementation of Precision Engineering, Electronics and Energy & Chemicals ITM, the shift in focus of the manufacturing cluster could fuel the demand for high-tech and business park spaces.

Viewed in this light, it means that it is a tale of two of markets with those in the electronics, pharmaceutical and high-tech sectors benefitting both now and moving forward but the Small and Medium Sized Enterprises (SME) continue to face strong headwinds. As the growth industries are often housed on JTC real estate or their buildings have been hived off to Real Estate Investment Trusts on long term leases, they have very little touch points with industrial leasing specialists, non-REIT private sector landlords or local SMEs. Thus their sterling performance is not felt outside their restricted circle of influence. This view is congruent with the view of our industrial leasing specialists that the industrial market is still not out of the woods.

Therefore, unless we see broad based improvements to the manufacturing and construction sectors, rising PMIs or NODX may not translate to a convincing turnaround in industrial and warehouse space rents. Therefore, we will still be forecasting declining rents for Q4/2017 and 2018 as a whole, although the rate of decline has been moderated from our earlier -5% to 0% range to -3% to 0%.

Period	YoY % change industrial factory and warehouse rents
Q4/2017F	-10.0%
Q1/2018F	-3% to 0%

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

Savills Research

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

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