Briefing
Industrial sector

January 2015

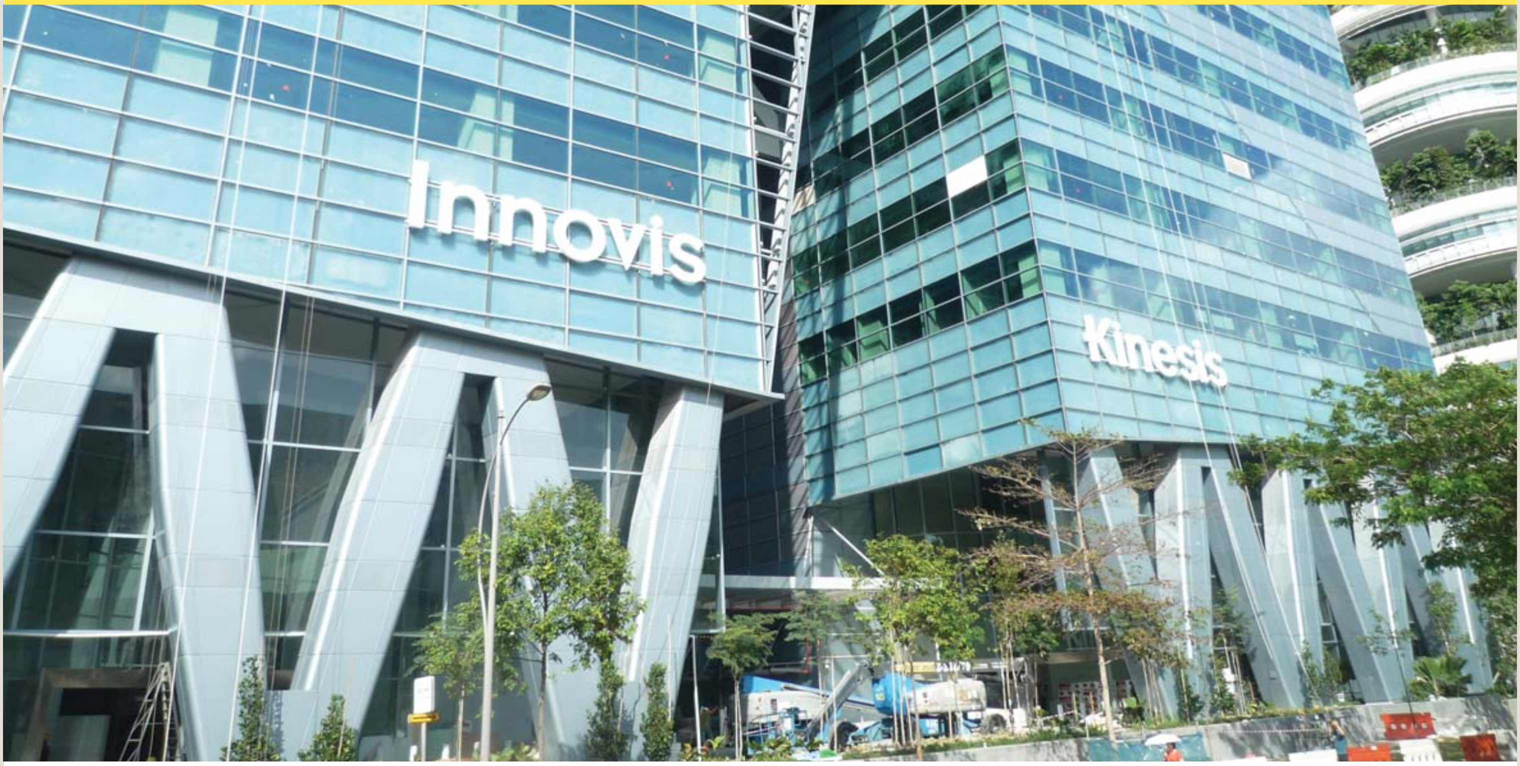


Image: Fusionopolis 2A, Fusionopolis Way

SUMMARY

2014 ended on a slower note, 2015 is preparing for a similar trend.

- Demand for industrial properties continues to fall with sales volume plunging 41.9% in 2014.
- Freehold and 30-year leasehold upper-storey factory and warehouse units tracked by Savills saw prices fall by 3.4% and 0.4% quarter-on-quarter (QoQ) respectively while 60-year leasehold units increased marginally by 0.6% in Q4/2014.
- Pressure on rental rates has led to a 2.5% QoQ decline, mainly due to the oversupply situation as well as greater flexibility on the part of landlords in lease negotiations.
- Business park space continues to attract tenants despite ongoing economic restructuring.
- Many challenges lie ahead in 2015 and these range from the supply overhang to the uncertainties in the global economic recovery.

"Whilst lower oil prices may give a boost to global economies, a sharp decline may complicate matters by creating greater uncertainties for many mainstream and supporting companies in the sector, thereby negatively impacting the industrial sector."
Alan Cheong, Savills Research

MCI (P) 024/04/2014
Company Reg No. 198703410D

Macroeconomic overview

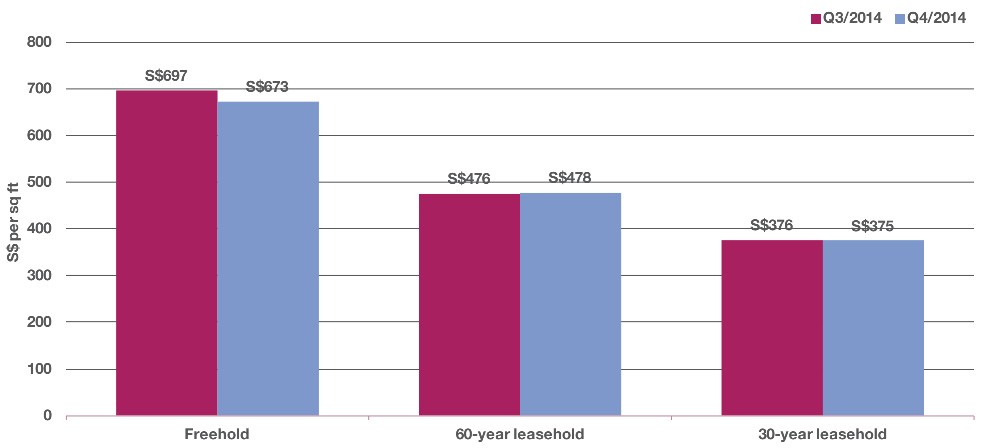
Other than the United States, major economies worldwide have shown muted Q4/2014 performance. Asian powerhouse China trimmed its interest rate for the first time in two years on 21 November 2014 in a bid to spur growth that has slowed more than expected. Japan's economy is still recuperating from the tax hike implemented in April which has sent the country into recession. The Eurozone also continued to stagnate in Q4/2014 as its two largest economies Germany and France are growing at a feeble pace while political uncertainties in Greece continue to worry its neighbours. This being said, the US has emerged as the top performer with its gross domestic product (GDP) growing 5.0% in Q3/2014, fastest in the past five years. A stronger labour market and consumer spending kept the Federal Reserve optimistic about raising its interest rates in mid-2015.

However, the negative developments in the global markets had a stronger impact on Singapore compared to the positive news arising from the US economy. Singapore's overall Purchasing Manager's Index (PMI) was at 49.6 in December (a reading below 50 indicates contraction), while the non-oil domestic exports (NODX) increased by a mere 1.6% in November. This decline was mainly due to the 10.2% drop in electronic exports to the major economies.

According to flash estimates, Singapore's GDP grew by 1.5% year-on-year (YoY) in Q4/2014, dragged by the sluggish manufacturing sector. Overall, 2014's growth is estimated to be at 2.8%.

GRAPH 1

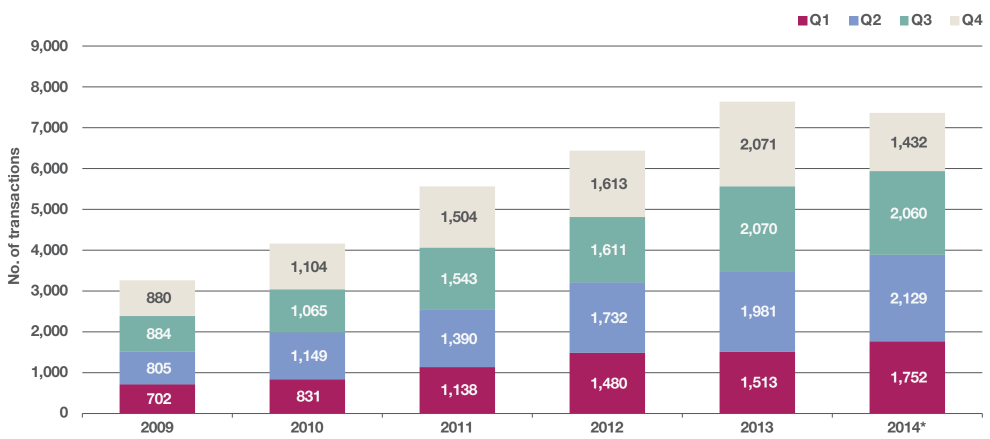
Prices of upper-storey factory and warehouse units, Q3/2014 and Q4/2014



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

GRAPH 2

Leasing volumes of factories and warehouses, 2009 – Q4/2014*



Source: URA, Savills Research & Consultancy
*Q4/2014 only includes October and November figures.

Sales market

The waning interest in industrial properties continued into the final quarter of 2014. Only 422 strata factory and warehouse caveats were lodged, representing a steep QoQ drop of 22.4% and a significant 34.2% fall from Q4/2013[1]. Overall sales in 2014 shrank 40.2% from the 3,379 caveats lodged in 2013, marking this as the third consecutive year of decline. We also notice higher trading activity in the secondary market in the past four quarters (Q2/2014 seeing an all-time low of 14.7% sales in the primary market) despite developers providing incentives to move their units. This is likely due to individual owners, having earned sufficient profit margins, being more flexible in their asking prices than developers who have to watch their bottom line more scrupulously. The sharp drop in oil prices is beginning to be felt as companies in this sector had been active participants in the purchase of industrial properties previously. With the decline in oil prices, many have shelved their expansion plans.

The Savills basket of upper-storey factory and warehouse units shows prices moderating on a quarterly basis in Q4/2014. Freehold units had the most significant price decline of 3.4% QoQ while 30-year leasehold units slipped by 0.4%. 60-year leasehold units rebounded from Q3/2014's 1.0% decline, rising 0.6% in Q4/2014. Throughout 2014, price movements have been more volatile as compared to previous years, mainly due to lesser transactions which led to the lack of robust price information for both buyers and sellers.

Rental market

The tepid manufacturing business environment is taking its toll on the rental market as demand for industrial space has diminished. Leasing volume has dropped 1.6% YoY from 1,456 deals in October and November 2013 to 1,432 deals in the same period of 2014. The number of transactions is 30.5% short of Q3/2014's figure of 2,060 deals with a month to go. Given this shortfall, it is unlikely that the final figure for Q4/2014 will exceed

1 Singapore Institute of Surveyors and Valuers REALink caveats as of 19 January 2015

the preceding quarter. Looking at the year's performance, the total transactions for 2014 is likely to reach 8,000, surpassing the 7,635 deals recorded in 2013.

Recent completions of new strata industrial properties such as Premier @ Kaki Bukit and Woodlands Horizon have provided more options for manufacturers seeking premises to rent. Manufacturers would have already started to benefit from falling global oil prices leading to lower business operation cost, but this has also increased pressure for landlords in Singapore to lower their asking rents in order to compete with their Malaysian counterparts across the Causeway who, in addition to the benefits of falling oil prices, also have the weaker currency exchange rate in their favour. Hence, rents for factory and warehouse units have declined 2.5% QoQ from S$2.00 to S$1.95 per sq ft per month. Demand for high-tech units remain relatively strong as rents continue to hold at S$3.00 per sq ft per month.

The fall in rents is also due to the greater flexibility of strata unit landlords in acceding to tenant demands. Landlords' rental expectations have become more realistic as more and more new industrial units come onto the market. Some landlords have also accepted rents below their initial demands for fear that increasing interest rates will balloon their borrowing cost if the units remain vacant for too long.

Business Park

Rental demand for business park space remained healthy in 2014. There were 46 leasing deals in October and November, 37.0% less than the preceding quarter with a month to go. Excluding the final month of the year, the total number of deals for 2014 is already 38.4% more than 2013's whole year total. The vacancy rate for business parks island-wide in Q3/2014 was 13.9%, lower than the 15.9% seen in 2013 and occupancy is expected to remain healthy in the final quarter. The increase in occupancy rate amid the completions of new business park space in Changi Business Park and One-North shows that interest for such space has remained unabated amid the current economic restructuring.

Outlook

2014 has been a slower market for strata industrial property sales resulting in a more volatile market. The lull is expected to continue into 2015 on the back of concerns regarding interest rate hike, fall in oil prices, supply overhang, government cooling measures and lower rents. The existing large supply of 30-year leasehold strata units will continue to depress their price levels and lead to a domino effect, dragging 60-year leasehold and freehold prices down as well. Falling oil prices have also stymied expansion plans of companies involved in the sector. We foresee prices of strata industrial units softening across the board in 2015, by 8.0% for 30-year leasehold and 5.0% for both 60-year leasehold and freehold.

Similarly, the slower economic growth and the recent supply of new strata industrial units, along with labour woes arising from the economic restructuring, will continue to put pressure on rents. Therefore, we expect rents to fall by 5.0% in 2015.

TABLE 1

Business park leasing volumes and values, Q4/2014

	No. of deals	Total value (S$)	Average value per transaction (S$)	Median rent (S$ per sq ft)
Changi Business Park	9	167,695	18,633	3.90
International Business Park	12	91,718	7,643	4.23
Science Park 1	7	94,285	13,469	4.50
Science Park 2	15	323,249	21,550	4.00
One-North	3	41,492	13,831	5.45

Source: URA, Savills Research & Consultancy

TABLE 2

Price and rental growth, 2015F

Tenure	Growth	
	Prices	Rents
30-year leasehold	-8%	
60-year leasehold	-5%	-5%
Freehold	-5%	

Source: URA, Savills Research & Consultancy

Please contact us for further information

Savills Singapore

Savills Research


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


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