

Briefing Industrial sector

March 2016

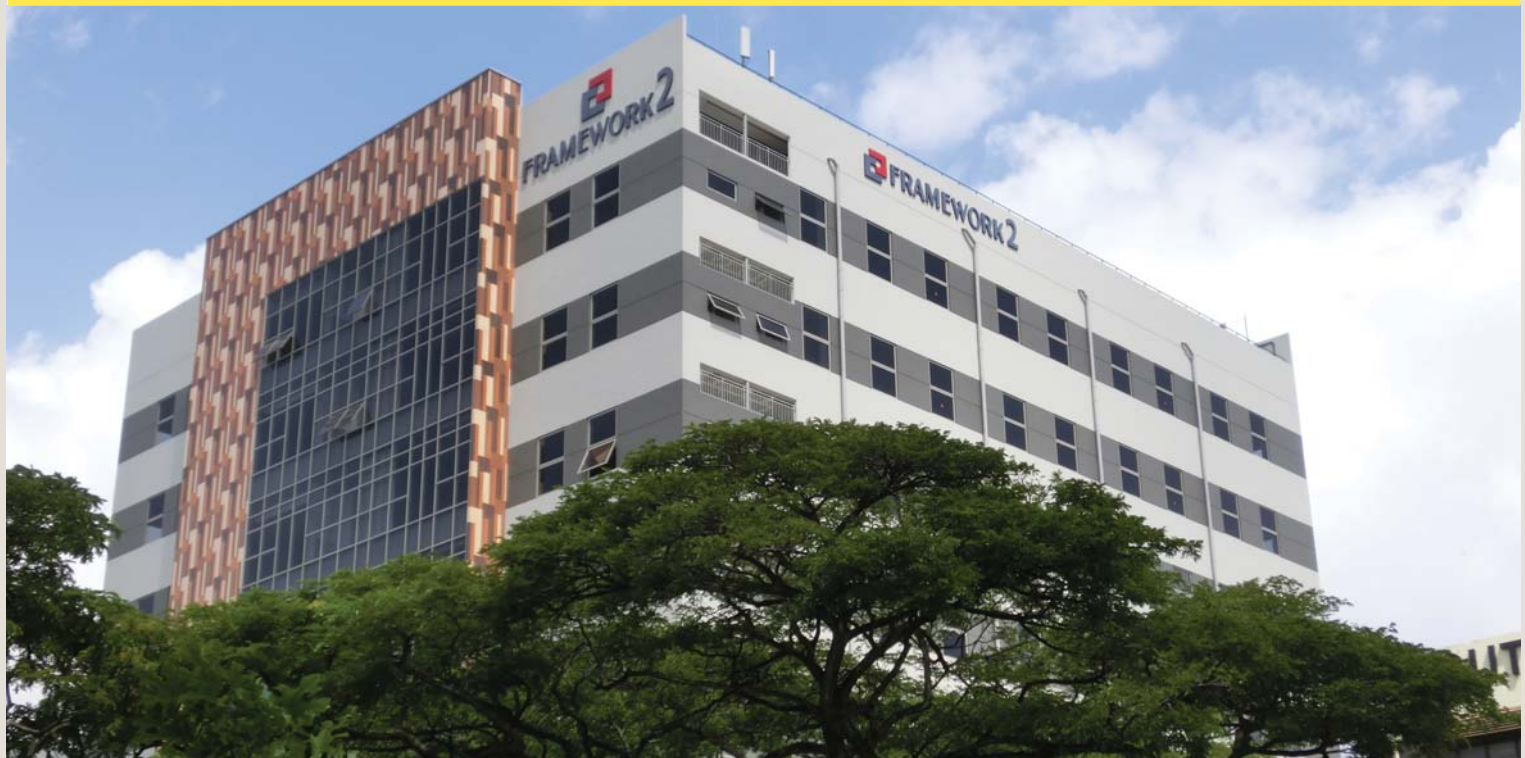


Image: Framework 2, Aljunied Avenue 1

SUMMARY

As global economic conditions and external demand remain sluggish, Singapore's manufacturing sector risks persistent sub-par growth, which does not augur well for the industrial market.

- 318 caveats for strata factories and warehouses were lodged in Q4/2015, bringing the full-year total to 1,465, a 32.6% decline from 2014.

- Freehold properties lead the way in price appreciation, with a quarter-on-quarter (QoQ) increase of 6.2% to S\$696 per sq ft. Thirty-year leasehold properties rose by 1.1% QoQ to S\$389 per sq ft, while 60-year leasehold properties declined QoQ by 3.0% to S\$468 per sq ft.

- In Q4/2015, leasing volume dropped 5.4% QoQ to 1,921 deals.

For the whole of 2015 however, leasing volume improved to 8,173 from 8,012 deals in 2014.

- Factory and warehouse rents decreased 2.7% QoQ from S\$1.85 to S\$1.80 per sq ft per month, while high-tech properties fell 1.7% QoQ to S\$2.95 per sq ft per month.

- The influx of some 31.1 million sq ft of factory and warehouse space in 2016 alone is expected to exert a downward pressure on overall factory rents.

“While the marine, oil & gas and chemical sectors have been battered by a multi-pronged assault on their business lines, the silver lining could be in sectors which cater to new-age industries and e-commerce.”
Alan Cheong, Savills Research

➔ **Macro economy**

In 2015, growth within the two major global economic powerhouses, the US and China, came from different sources. For the US, growth was concentrated in the service sector, while for China, domestic consumption led the way. Over in the Eurozone, domestic demand, albeit showing signs of revival, has yet to bloom to an economic recovery seen during pre-crisis levels. For the other economic powerhouse, Japan, for the month of December 2015, it reported a fall in exports to its largest trading partner, China, and to Asia as a whole, which accounts for more than half of its shipments. For other trade-dependent economies in Asia,

TABLE 1 **Business park leasing volumes and values, Q4/2015**

	No. of deals	Total value (S\$)	Average value per transaction (S\$)	Median rent (S\$ per sq ft)
Changi Business Park	1	20,184	20,184	3.80
International Business Park	16	342,122	21,383	4.15
Science Park 2	6	57,405	9,568	4.34
One-North	9	533,285	59,254	5.00

Source: URA, Savills Research & Consultancy

the slump in new export orders and production output is unlikely to be reversed soon.

Against the backdrop of a generally slower global economy, Singapore experienced muted year-end factory activity with the Singapore's Purchasing Managers' Index (PMI) registering a reading of 49.5 in December. This means that factory output has remained in a contractionary phase for the sixth consecutive month (a reading below 50 indicates a contraction). In the same month, non-oil domestic exports (NODX) declined 7.2% year-on-year (YoY), a deeper contraction than the previous month's 3.4% decline.

Arising from a 6.7% YoY contraction in the manufacturing sector, Singapore's gross domestic product (GDP) showed a slow 1.8% YoY rise in Q4/2015. This brought the full-year growth rate in 2015 to 2.0%, down from the 3.3% recorded in 2014.

Sales market

The number of caveats lodged for strata factories and warehouses in Q4/2015 was 318¹, bringing the full-year total to 1,465. This was a 32.6% decline from 2014 levels and a stark contrast from 2011's peak of 5,403 transactions.

Notwithstanding weak buyer interest, sellers still have strong holding power and are not compelled to lower their price expectations. Prices of upper-storey factory and warehouse units in the Savills basket show that freehold

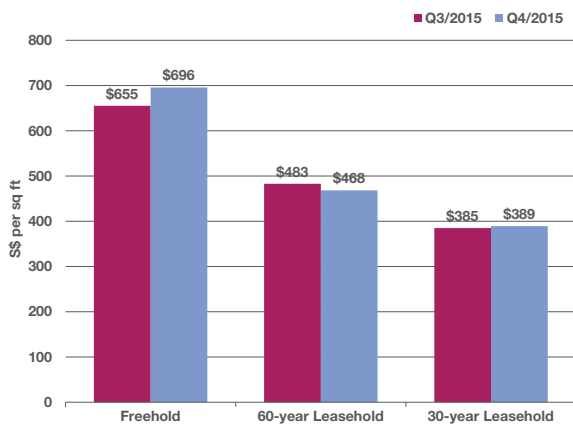
properties still registered some price appreciation, with a QoQ increase of 6.2% to S\$696 per sq ft. Thirty-year leasehold properties rose by 1.1% QoQ to S\$389 per sq ft, extending the 3.9% QoQ increase from the previous quarter. It was the 60-year leasehold properties that registered a 3.0% QoQ decline to S\$468 per sq ft.

Leasing market

In Q4/2015, leasing volume dropped 5.4% QoQ to 1,921. For the whole of 2015 however, the leasing volume improved from 8,012 in 2014 to 8,173. This could be due to the result of demand chasing the new supply that came on stream in 2015. Major completions in Q4/2015 include a warehouse development at Bulim Avenue (893,404 sq ft), Win 5 at Yishun Industrial Street (540,348 sq ft) and Commonwealth Capital Building at Buroh Lane (181,910 sq ft).

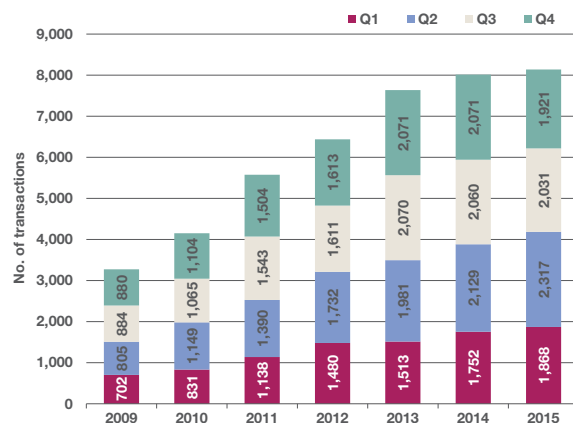
Although demand was strong, the tepid manufacturing environment meant that industrialists had lesser paying power. As a result, factory and warehouse rents decreased 2.7% QoQ from S\$1.85 to S\$1.80 per sq ft per month, with high-tech properties falling 1.7% QoQ to S\$2.95 per sq ft per month. In view of the surplus industrial space hitting the market, lower factory orders and labour constraints, landlords have become more in tune with the issues facing their tenants and have adjusted their rental expectations to retain them. Some landlords have even re-signed on at rents below their asking price out of fear that rising interest rates will jeopardize

GRAPH 1 **Prices of upper-storey factory and warehouse units, Q3/2015 and Q4/2015**



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

GRAPH 2 **Leasing volumes of factories and warehouses, 2009 – 2015**



Source: URA, Savills Research & Consultancy

1 Singapore Institute of Surveyors and Valuers REALink caveats as of 18 Feb 2016

their cash flow if the units remain vacant for too long.

Business Parks

In Q4/2015, there were 32 rental transactions in business parks, down from 50 in the previous quarter. Over the same period, the island-wide vacancy edged up 0.3 of a percentage point (ppt) to 15.9%. This can be attributed to the 1.9 million sq ft of business park space added to the stock in 2015, of which 807,293 sq ft was completed in Q4/2015 alone.

Moving forward, Singapore's growth as an entrepreneurial hub is poised to generate demand for the 2.1 million sq ft of business park space coming on stream by end-2016. For one, incubation hubs such as the JTC Launchpad @ one-north are being planned to facilitate new-age entrepreneurial businesses. The National Additive Manufacturing Innovation Cluster is another recent government initiative that facilitates small and medium enterprises (SMEs) in Singapore in developing more cost-effective 3D printing manufacturing processes. ■

OUTLOOK

The prospects for the market

As global economic conditions and external demand remains sluggish, Singapore's manufacturing sector risks sub-par growth and this does not augur well for the industrial market. Furthermore, the influx of some 31.1 million sq ft of factory and warehouse space in the next year alone is expected to add downward pressure on overall factory rents.

Multi-user factories in the east and west regions, which house a greater concentration of manufacturing trades related to the marine and oil & gas sectors are projected to see a 5.0% moderation in rents, with occupancy levels heading down from mid- to low-90.0% levels. Over in the central area, demand for multi-user factories is expected to prevail, with rents forecasted to remain at around S\$1.80 per sq ft per month, and occupancy levels in the mid-90.0% range. This is due to the greater agglomeration of service-related companies in the central area, most of which are IT-related, or stockists for computer and engineering parts.

Although the outlook for the overall industrial property market is expected to be soft on the back of contracting factory activity, opportunities abound for industrialists. The government has affirmed its commitment to boost Singapore's logistics industry through public-private partnerships and initiatives to boost Singaporeans' employability within the sector.

The growth of e-commerce puts factories and warehouses at the forefronts of the provision of quality space with complementary support services for these e-retailers. A silver lining therefore exists in that the large sums of investments that poured into e-commerce from 2010 to 2015 have spawned not only more companies in this arena, but also demand from end-users of their platforms. This will require a reconfiguration of supply chain processes and an expansion of the logistics sector which then bolsters both the warehouse and factory markets. With the growth of e-commerce, landlords may also adapt their warehouse space for use by these e-retailers. Hence, the way forward for the warehouse market will be in the provision of quality space with complementary support services.

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

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 600 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.