Briefing
Industrial sector

March 2017

Image: Big Box, 1 Venture Avenue

SUMMARY

It was still a tenants' market as rents continued to soften in the last quarter.

- 206 caveats for strata factories and warehouses were lodged in Q4/2016, a 38.3% decline from the previous quarter.

- In line with the lower number of transactions in the sales market, upper-storey factory and warehouse units in the Savills basket saw marginal price declines in Q4/2016. Prices of 30-year leasehold and freehold properties decreased 0.6% and 2.2% quarter-on-quarter (QoQ) respectively to S$358.19 per sq ft and S$644.58 per sq ft, while 60-year leasehold properties had a 2.1% QoQ recovery to S$453.96 per sq ft.

- Following a 6.8% QoQ drop in Q3/2016, leasing activity in the industrial market dipped further for two consecutive quarters, by 7.9% QoQ to 1,962 deals in Q4/2016.

- On a quarterly basis, the average prime monthly rent for the factory and warehouse sector slipped 6.7% to S$1.40 per sq ft in Q4/2016, continuing the year-long decline since Q4/2015. From Savills basket of high-tech buildings, the average monthly rent fell 1.1% QoQ to S$2.72 per sq ft.

"Business park and high-tech buildings may be able to absorb future transport and water cost pressures, whilst traditional industrial parks may become Jurassic parks if tenants fail to adapt quickly."
Alan Cheong, Savills Research

MCI (P) 188/03/2016
Company Reg No. 198703410D

Macro economy

Based on the advanced estimates released by the Ministry of Trade and Industry (MTI), the Singapore economy in Q4/2016 grew 2.9% year-on-year (YoY). This was higher than market expectations and significantly exceeded the 1.2% expansion in the preceding quarter. Consequently, the Gross Domestic Product (GDP) in 2016 expanded, with a full-year growth of 2.0%, above MTI's expected range of 1.0% to 1.5%.

A technical recession in Q4/2016 was averted as manufacturing output surged. Being one of the key contributors to overall GDP growth, the manufacturing sector expanded by 6.5% YoY in the last quarter. It was largely driven by the electronics and biomedical manufacturing clusters, while the transport engineering and general manufacturing clusters continued to contract. The Economic Development Board (EDB) reported that Singapore's manufacturing output for Q4/2016 expanded by 11.5% YoY, mainly due to the 21.3% YoY output upsurge in December 2016. For the whole of 2016, manufacturing output improved by 3.6% YoY.

After the marginal 0.1 of a percentage point (ppt) month-on-month (MoM) fall in the Singapore Purchasing Managers' Index (PMI) to 50.0 in October, the index improved to 50.2 and 50.6 in November and December, respectively. The two consecutive months of improvement was attributed to higher factory output, due to a restocking of inventory for new orders for exports. This fourth month of expansion shows that the manufacturing sector has a certain level of resilience, despite global economic uncertainties.

Recovering from a 12.0% YoY contraction in October, Singapore's non-oil domestic exports (NODX) grew by 11.5% and 9.5% YoY in November and December, respectively. The improvement was led by the increase in both electronic and non-electronic NODX. Although NODX grew by 2.7% YoY in Q4/2016, it declined by 2.8% YoY for the full year, compared to 1.5% growth in the preceding year.

Sales market

Following the 11.9% QoQ dip in Q3/2016, transactions in the industrial property market plunged 38.3% QoQ in the last quarter. Including the 206[1] caveats lodged for strata factories and warehouses in Q4/2016, the 1,164 deals were concluded in 2016, marking the fifth straight annual decline in industrial sales transactions, and 22.1% YoY lower than the 1,495 deals registered in 2015.

1 Singapore Institute of Surveyors and Valuers REALink caveats as of 2 March 2016

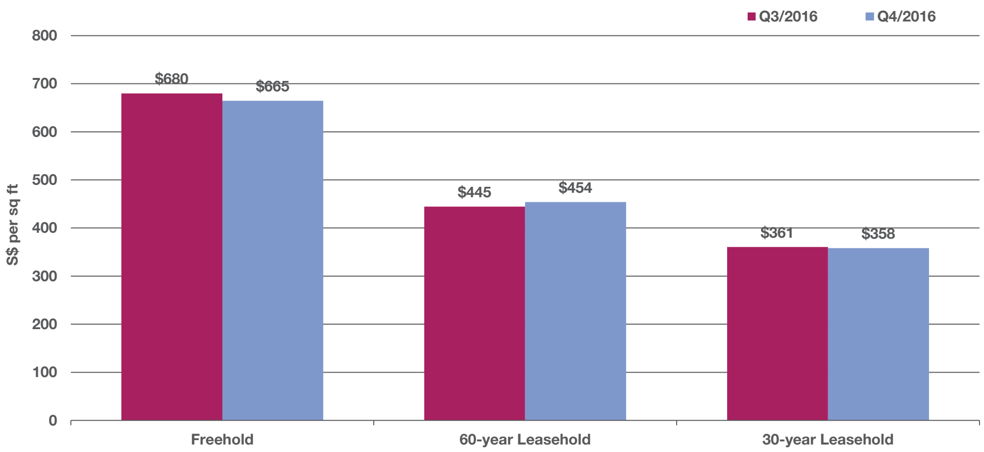
Notwithstanding the drop in industrial sales transactions, the total sales transaction value almost tripled in Q4/2016 compared to Q3/2016. According to the Urban Redevelopment Authority (URA), the total value of these transactions reached more than S$0.97 billion. The uptick in sales was mainly due to the land sales for factory development at Science Park Drive and Chin Bee Avenue, which were transacted at S$420 million and S$87.3 million respectively. The S$420 million deal was a purchase of three Science Park buildings (DSO National Laboratories buildings and DNV GL Technology Centre) by Ascendas Real Estate Investment Trust (A-Reit). The latter was a purchase of a logistics property in Jurong West by Viva Industrial Trust.

While factory transactions tripled to more than S$0.9 billion from S$0.3 billion in Q3/2016, warehouse transactions dropped from S$15.2 million in Q3/2016 to S$9.1 million. Major warehouse sales transactions include Perfect One and Vertex, which transacted at S$2.2 million and S$2.0 million, respectively.

In line with the lower demand in the sales market, upper-storey factory and warehouse units in the Savills basket saw marginal price decline in Q4/2016. Other than 60-year leasehold industrial units, which had a 2.1% QoQ recovery from the largest price decline of 4.7% QoQ in Q3/2016, freehold and 30-year leasehold industrial units continued to trend downward in Q4/2016. The price for 60-year leasehold industrial units averaged S$453.96 per sq ft, still below the prices recorded since 2013. 30-year leasehold industrial units recorded a new record low price at S$358.19 per sq ft after a further dip of 0.6% QoQ. In spite of the limited supply of freehold industrial developments in Singapore, prices had the largest fall of 2.2% QoQ in Q4/2016 to S$644.58 per sq ft, the lowest price recorded in 2016.

GRAPH 1

Prices of upper-storey factory and warehouse units, Q3/2016 and Q4/2016



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

Leasing market

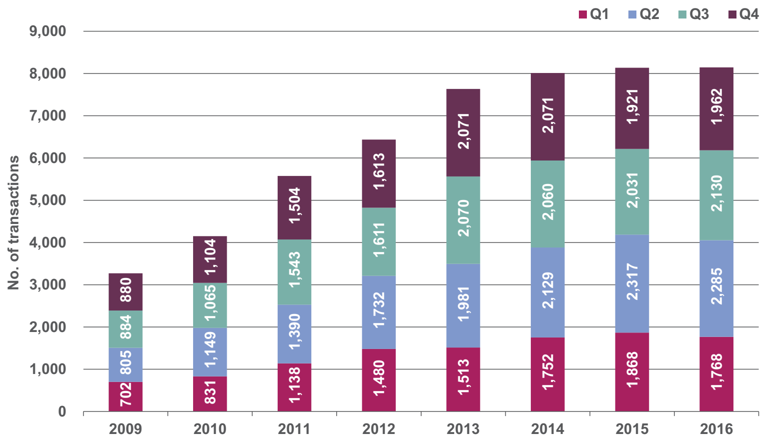
Following a 6.8% QoQ drop in Q3/2016, leasing activity in the industrial market dipped further for two consecutive quarters, by 7.9% QoQ to 1,962[2] in Q4/2016. The tepid market could be a result of the global economic slowdown and uncertainty due to major events such as the Brexit vote and unexpected outcome of the US presidential election. Nonetheless, it was still 2.1% YoY higher than the rental volume of 1,921 in Q4/2015.

As global uncertainty persists, it remained a favourable tenants' market in Q4/2016. The average prime industrial monthly rent continued to decline for all segments from 2015. With the factory and warehouse sector[3] registering the sharpest decline of 22.2% YoY, high-tech properties also recorded a 4.6% YoY rental decline. On a quarterly basis, the average prime monthly rent for the factory and warehouse sector slipped 6.7% to S$1.40 per sq ft in Q4/2016. The rent for this sector had been declining for more than a year since Q4/2015. However, from Savills basket of high-tech buildings, the average monthly rent fell 1.1% QoQ to S$2.72 per sq ft. This sector is registering a slower rate of rental decline for the factory and warehouse sector, partly because of the lack of new supply for high-tech spaces.

2 Lease volume excludes Business Parks.
3 Prime rent for factory and warehouse units more than 10,000 sq ft on the ground floor.

GRAPH 2

Leasing volumes of factories and warehouses, 2009–Q4/2016



Source: URA, Savills Research & Consultancy

Business Parks

In Q4/2016, there was an increase in the number of leases signed for Technopark@Chai Chee and International Business Park (IBP), where seven and 29 deals were recorded, respectively. As a result, the number of leases signed for business park space went up 14.3% QoQ to 48.

In Q4/2016, the average monthly rent increased across the board. According to JTC Corporation's rental index of industrial properties, the median rent for business parks inched up 0.9% QoQ to S$4.29 in Q4/2016. During the same period, island-wide vacancy rates for business park space improved 1.9 ppts QoQ to 17.0%. Although the vacancy rate at One-North worsened to 9.4% from 7.6%, the improvement in vacancy levels of Mapletree Business City and Science Park (27.4%), Changi Business Park (10.6%) and Clean Tech Park (19.8%) helped to ease the overall vacancy rate of business park space.

TABLE 1

Business park leasing volumes and values, Q4/2016

	No. of deals	Total value (S$)	Average value per transaction (S$)	Median rent (S$ per sq ft)
Technopark @ Chai Chee	7	153,478	21,925	3.15
Changi Business Park	6	259,024	43,170	4.08
International Business Park	29	413,785	14,268	4.30
Science Park I	2	68,617	34,308	5.27
Science Park II	1	2,759	2,759	4.30
One-north	3	45,747	15,249	5.63

Source: URA, Savills Research & Consultancy

OUTLOOK

The prospects for the market

Owing to political risks in key Eurozone economies and the United States, as well as further tightening of monetary conditions in China, uncertainties and downside risks in the global economy are likely to persist in the short term. Signs of potential protectionist measures and anti-globalisation sentiments also pose significant risks to global trade and worldwide economic growth.

In view of the economic and political uncertainties, MTI's forecast for the Singapore economy growth is 1.0% to 3.0%. The manufacturing sector is expected to remain as a key pillar of the local economy. Driven by the healthy global demand for semiconductors and semiconductor equipment, the manufacturing sector is likely to be well-supported by the sustained expansion of segments such as semiconductors and machinery & systems. In the near term, the local manufacturing sector is expected to continue its improved momentum from the last quarter and support local economic growth. Over the medium term, MTI and EDB are campaigning to strengthen the local manufacturing base; developing capabilities in sectors such as industrial data analytics and advanced manufacturing technologies may create new opportunities for growth within the sector.

In our Q3/2016 brief, we mentioned that although the niche segments of the market like warehouse space for e-commerce activities look promising, these cannot possibly form a large enough bulwark to counter the strong cross-winds buffeting the traditional warehouse users in the short term. Our view is unchanged and, moving forward, there are other cost issues that manufacturers have to contend with. This ranges from higher water charges to increased transportation costs as Singapore is moving towards a car-lite economy. For existing industrialists who want to survive under such circumstances, they now simply cannot just evolve but will have to adapt very quickly. Very likely, this will result in a quickening of the contraction of the set of existing manufacturers here. Their replacement in the industrial space will have to be new-age industrialists that can overcome such cost pressures. However, the biggest question is whether this group is big enough, or can develop fast enough, to offset the traditional industrial space users. This group of new-age industrialist, however, is gravitating towards business parks or high-tech space, and these two sectors are perhaps more able to weather the rapidly changing industrial landscape.

Bearing all this in mind, we believe that industrial and warehouse rents in 2017 may soften another 5.0% YoY island-wide. For business parks, given the dearth of supply in the coming years, we may see rents exhibit slight increases of about 3.0% to 5.0% YoY in 2017.

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