Industrial

Industrial sector bottoming out

Business park and high-tech segments upturn likely to continue in 2019.

- Industrial leasing activity continued its steady growth with an increase of 10.0% year-on-year (YoY) to 2,564 deals in Q4/2018.
- The decline in average prime monthly rent for factory and warehouse space moderated in Q4/2018, showing a slight dip of 1.7% YoY to S$1.13 per sq ft.
- In Q4/2018, industrial overall sales market fell further by 36.5% YoY to 205 transactions.
- As demand for strata industrial properties softened 17.5% YoY to 208 transactions, prices of 30- and 60-year leasehold upper-storey factory and warehouse units decreased by 3.7% YoY to S$337 per sq ft and 0.7% YoY to S$442 per sq ft respectively.
- Prices of freehold industrial units extended their one-year increase with a 1.9% YoY price growth.
- Business park and high-tech industrial segments demonstrated resilience and continued growth in Q4/2018.
- A picture is emerging as the industrial market is broken to two groups. The group housing new tech and app service providers is expected to do well, whilst the other with a concentration of small and medium-sized enterprises (SME) in traditional trades may continue to languish.

> "The industrial market is a tale of two worlds with new tech and app space soaring whilst traditional space providers are facing greater challenges ahead."
>
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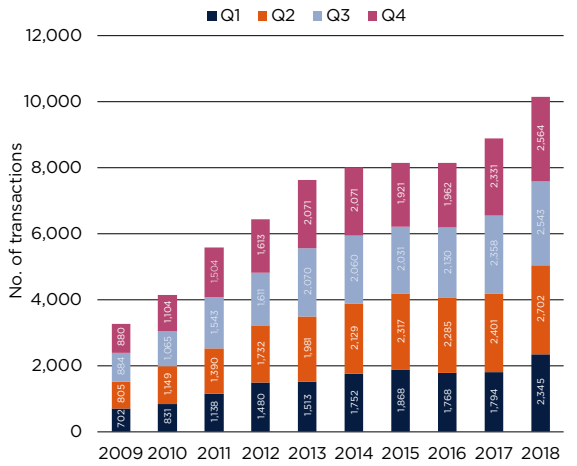
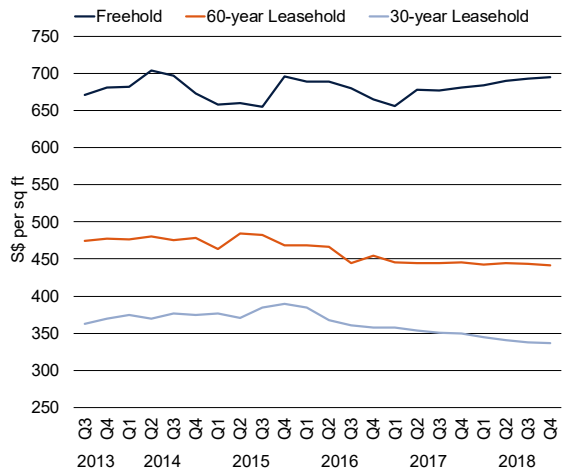
GRAPH 1: Leasing Volumes Of Factories And Warehouses, 2009 to 2018



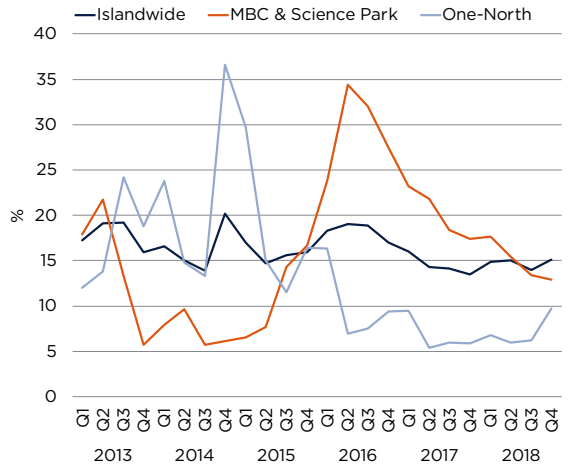
Source JTC, Savills Research & Consultancy

GRAPH 2: Prices Of Upper-storey Factory And Warehouse Units, Q3/2013 to Q4/2018



Source JTC, Savills Research & Consultancy

GRAPH 3: Vacancy Rate Of Business Park Space, 2003 to 2018



Source JTC, Savills Research & Consultancy

MACROECONOMIC OVERVIEW

According to Ministry of Trade and Industry (MTI) advance estimates, Singapore's economic growth slowed slightly from 2.4% YoY in Q3/2018 to 1.9% YoY in Q4/2018. For the full year of 2018, GDP grew 2.4%. Driven by an output increase in the biomedical manufacturing cluster, manufacturing growth recovered from 3.5% YoY in Q3/2018 to 5.1% YoY in the last quarter of the year.

It was noteworthy that due to escalation of the US-China trade war, the electronics and precision engineering clusters saw a significant decline in output late last year, hence easing Singapore's factory growth in the last three months from a year ago. As a result, the Purchasing Manager's Index (PMI) hit 51.1, the lowest that year. In November, the electronics sector PMI posted its first two straight-month contraction since July 2016. Non-oil domestic exports (NODX) also saw the first YoY decline for two consecutive months after seven months of increases. Both the electronic and non-electronic NODX indices fell in December.

RENTAL MARKET

Based on leasing data published by JTC Corporation (JTC), industrial-leasing activity continued its steady growth for the 10th consecutive quarter in Q4/2018. Weaker business sentiments in the industrial sector could be leading more industrialists to lease than acquire properties. As total industrial leasing volume increased 10.0% YoY to 2,564 deals in Q4/2018, the year ended with a record high of 10,154 leasing transactions, 14.3% more than 2017's total.

The record high was brought on by higher leasing demand across all industrial segments[1] in Q4/2018, easing the vacancy rate for single-user factory and warehouse space. However, vacancy levels for multiple-user factory space remained flat from a year ago. Even though rental levels did not correspond with the improved occupancy rate, rents appear to have bottomed out as the rate of decline moderated to its slowest in the last few years. The single- and multiple-user factory levels and the warehouse rental index declined 1.9%, 0.1% and 0.9% YoY respectively in Q4/2018. The average prime monthly rent[2] for factory and warehouse space posted a 1.7% YoY decline to S$1.13 per sq ft, the smallest dip since the rental market started softening in Q4/2014.

SALES MARKET

The industrial sales market faltered in Q4/2018, recording a 36.5% YoY decline to 205[3] transactions. For 2018, the total number of deals summed up at 1,243, the lowest since 2016. Quarterly transacted value[4] fell in tandem with the sales volume, falling 23.8% YoY to S$534.3 million in Q4/2018. For 2018, the total annual sales value was lower than the sales peak in 2017 when Jurong Aromatics Complex was transacted at S$1.97 billion in a land sale. Even though the sales market for single-user factory space softened due to a dearth of land sales, multiple-user factory and warehouse space were relatively active, leading to a brake on the total annual YoY sales decline at 23.1%.

Sales activity in the industrial strata market quietened in Q4/2018, with sales volume declining 17.5% YoY to 208 transactions, the lowest since Q1/2017. Based on Savills basket of industrial properties[5], prices of 30-year leasehold industrial units have been declining for almost three years, down by 3.7% YoY to S$337 per sq ft in Q4/2018. Prices of 60-year leasehold industrial units also continued their downward trend for over a year, slipping by 0.7% YoY to S$442 per sq ft, a record low since the data was constituted in 2013. Prices of freehold industrial properties, however, stayed resilient, extending their one-year increase with a 1.9% YoY price growth in Q4/2018.

BUSINESS PARKS AND HIGH-TECH SPACES

The annual net demand for business park space has been on the downtrend since 2016, putting some upward pressure on vacancy levels, which went up from 13.4% in 2017 to 15.1% in 2018. Notwithstanding that, there was a pick-up in occupancy in the newer business parks. The vacancy rate in the area in which Mapletree Business City and Science Park are located fell to a three-year low at 12.9% in Q4/2018. The sustained demand coupled with a limited supply coming on stream made the business park segment the strongest rental performer amongst all industrial segments. Posting growth for the ninth consecutive quarter, the business park rental index rose 2.8% YoY in Q4/2018.

As demand was unevenly spread amongst various business park developments, the overall occupancy level was dragged down by the poor take-up in other business parks. After the recent completion of Alice@Mediapolis, the vacancy level in one-north increased 3.5 percentage points (ppts) quarter-on-quarter (QoQ) to 9.7% in Q4/2018. The vacancy level of older developments such as Changi Business Park also rose 1.5 ppts QoQ to 13.3% while the vacancy rate of International Business Park

1 Excluding business park spaces, only comprises single- and multiple-user factory as well as warehouse spaces.
2 Based on Savills basket of factory and warehouse properties which are more than 10,000 sq ft on ground floors.
3 Singapore Institute of Surveyors and Valuers REALink caveats as of 9 January 2019.
4 According to JTC caveats which are lodged on industrial properties with the Singapore Land Authority as of 10 January 2019.
5 Only include strata sales of upper-storey factory (single-, multiple-user factory and business park) and warehouse units, excluding all ground floor units.

increased 0.4 ppt QoQ to 28.2%. As such, on a yearly basis, Savills average monthly rent for business park space remained flat at S$4.05 per sq ft for the fifth quarter in Q4/2018.

Apart from the business park segment, the high-tech space also performed well. As high-tech industrial rental growth outpaced other segments for over a year, some landlords began focusing on expanding their high-tech portfolio with acquisitions and building improvement plans. To enhance its portfolio through the addition of new high-tech properties, Mapletree Industrial Trust (MIT) purchased two industrial developments in 2018. They include a nine-storey high-tech integrated development at 18 Tai Seng Street, as well as an industrial property at 7 Tai Seng Drive, which is currently being upgraded into a high-tech development.

Positive prospects for the high-tech industrial segment were reflected in the rental uptrend since 2017. Based on Savills basket of properties, the average monthly rent for high-tech space increased by 1.7% YoY to S$3.34 per sq ft in Q4/2018, achieving the highest rental level in the last three years.

OUTLOOK

Owing to moderating economic activity and heightened trade-related risks, global economic expansion is likely to ease to 2.9% in 2019, according to the World Bank. Based on the latest MTI assessment, the effect of external demand as a driver for the local economy is likely to also soften with increased downside risks, thus leading to more conservative investment and consumption growth. Against this backdrop, Singapore's economic performance in 2019 is slated to moderate from last year, with growth expected to be slightly below the mid of forecasted range at 1.5% to 3.5% YoY.

In face of a potential slowdown in manufacturing growth in 2019, traditional industrial spaces are unlikely to see significant rebounds in rents and prices, especially with ample supply coming on stream. Nonetheless, overall rental and price levels for factory and warehouse spaces are expected to stabilise in 2019, as they showed signs of bottoming out late last year.

TABLE 1: Rental Forecast For General Industrial Factory And Warehouse Space

PERIOD	YOY % CHANGE IN INDUSTRIAL FACTORY AND WAREHOUSE RENTS
2019F	-0.5% TO +0.5%
2020F	+1.0%

Source Savills Research & Consultancy

In particular, the upturn in business park and high-tech industrial segments is expected to continue in 2019. This could be supported by business expansions by corporations such as Shopee which fully leased a new 240,000-sq ft business park facility at Science Park Drive prior to its completion later this year. Besides, Google is also considering leasing almost 400,000 sq ft of space at Alexandra Technopark to extend its facilities. Such corporate expansions are likely to lend some support to the occupancy level of high-tech industrial space.

The business expansions within business parks and high-tech industrial buildings, the superior performance of high-tech industrial space and the concurrent rental decline in traditional B1 and B2 space are noticeable features of the market in 2018. After watching how the overall industrial market panned out in 2018, we may be able to piece together a more coherent picture of how the complex industrial space market is taking shape in 2019. The industrial space market is now broken up into basically two groups, with one performing well but the other still in the doldrums. Industrial buildings doing well are those that house tenants that drive the new tech and app economies, including technology providers, business disruptors, data centres, social media platforms and companies that use the internet as a platform to offer their services (as opposed to technology manufacturers). The second group, where rents are still slipping, generally house passé tech and traditional SMEs. Straddling both the performers and the languishers are industrial buildings in food zones where performance depends greatly on location and unit layout.

In the coming two to three years, we expect new tech and app companies to continue expanding their business park and high-tech industrial space footprints while traditional B1 and B2 spaces continue to languish as their ultimate tenants face an uphill battle against an ageing workforce and an inability to harness or provide new technology solutions to their customers. From the current set of industrial statistics, we are not yet able to categorise buildings where new tech and app companies concentrate (in B1, B2 and business park spaces), as quarterly rental statistics may not be granular enough to tell us the shape of the market.

Therefore, on the rental front, in 2019 certain industrial clusters may form around these locations (by no means an exhaustive list): Telok Blangah (tech and app company concentration), one-north (tech and app company concentration), Airport Logistics Park (air freight), Tai Seng (food zone and data centres), Pandan Loop (food zone), Macpherson Road (food zone), Bedok North (food zone). Rents may either hold firm or rise.

Outside these sampled areas, rents for industrial factory and warehousing space, if mainly tenanted by SMEs and or those with high labour input, may remain soft (refer to Table 1).