MARKET IN MINUTES
Savills Research

Industrial

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The industrial market loses some momentum

Industrial rents continue to rise, albeit at a slower pace in some segments.

- The industrial leasing market saw a further slowdown in momentum in Q2, with total leasing volume declining by 5.3% year-on-year (YoY) to 3,123 tenancies.
- Savills' monthly prime industrial rents increased further, with multiple-user factories rents rising by 1.2% quarter-on-quarter (QoQ) to S$2.26 per sq ft in Q2. On the other hand, Savills' warehouse and logistics properties rental growth moderated to 0.6% QoQ (to S$1.68 per sq ft) in Q2.
- Industrial sales activity in the strata market saw a recovery of 42.9% QoQ to 513 transactions in Q2, the highest level in almost two years.
- Savills' basket of industrial properties recorded a slower increase in prices across all tenure types in Q2. Prices for freehold and 60-year leasehold industrial properties increased by 0.5% to S$830 per sq ft and 0.7% QoQ to S$516 per sq ft respectively, while those for 30-year leasehold industrial properties inched up 0.1% QoQ to S$325 per sq ft in Q2.
- As index of business park rents tracked by JTC slipped by 0.1% QoQ after over two years of growth, Savills' standard business park monthly rents posted a muted growth of 0.1% QoQ to S$4.07 per sq ft in Q2.
- According to Savills' high-spec industrial basket, the average monthly rent increased 0.6% QoQ to S$3.96 per sq ft in Q2.
- Owing to a slew of global uncertainties, Singapore's manufacturing sector is expected to be similarly affected. However, because the supply pipeline for multiple-user factories is low this year, rents for this segment may still rise. We are revising our rental forecast for multiple-user factory space from 0% to 0% to 2.2% for 2024. For the warehouse and logistics space, we maintain our 0% to 3% increase for the year.

"Cost-conscious occupiers are favoring smaller unit sizes, driving up rents for multiple-user factories."

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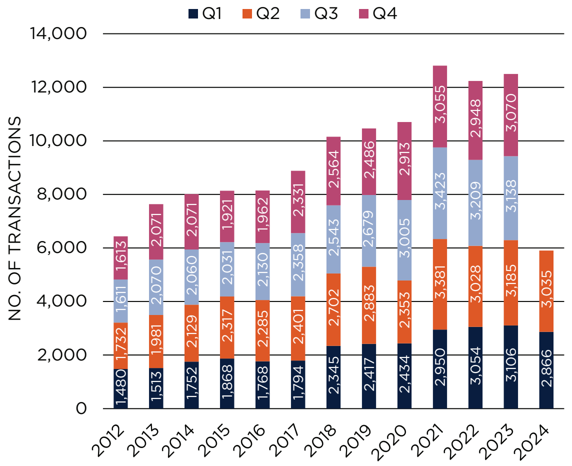
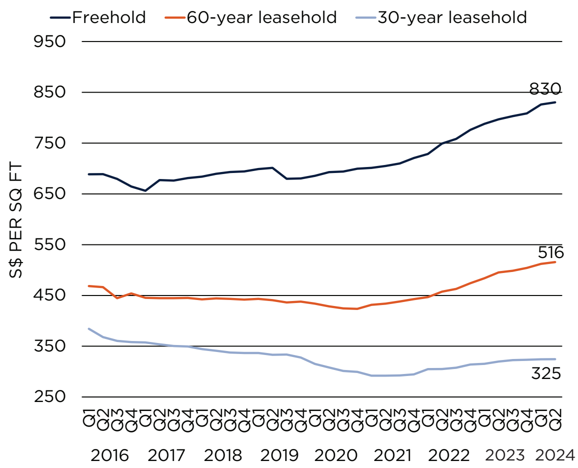
GRAPH 1: Leasing Volumes of Factories and Warehouses, 2012 to Q2/2024



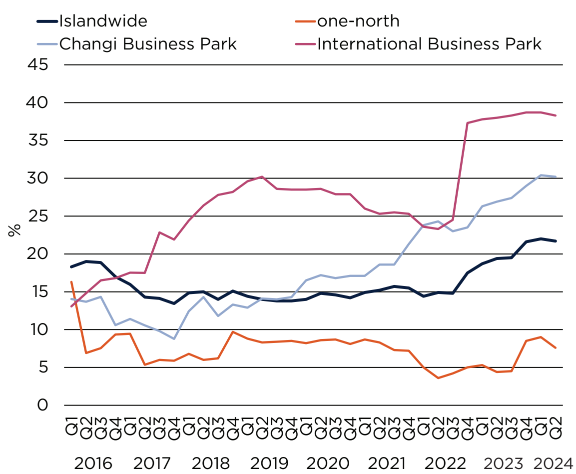
Source JTC, Savills Research & Consultancy

GRAPH 2: Prices of Upper-Storey Strata Factory and Warehouse Units, Q1/2016 to Q2/2024



Source JTC, Savills Research & Consultancy

GRAPH 3: Business Park Space Vacancy Rates, Q1/2016 to Q2/2024



Source JTC, Savills Research & Consultancy

MACROECONOMIC OVERVIEW

According to advance estimates from the Ministry of Trade and Industry (MTI), Singapore's economy grew by 2.9% YoY in Q2/2024, extending the 3.0% YoY expansion in Q1/2024. The manufacturing sector grew by 0.5% YoY in Q2/2024, a reversal from the 1.7% YoY contraction in the previous quarter.

The overall manufacturing sector has recorded continued expansion throughout the first half of the year, with the latest purchasing managers' index (PMI) in June reaching 50.4. However, it that still marks the lowest point in the index for this year. Owing to security issues in the Red Sea, the rerouting of vessels led to a fallout that created port congestions which slowed deliveries and increased supply chain costs, Singapore's key exports shrank further in Q2. Non-oil domestic exports (NODX) declined by 8.7% YoY in June, largely from the non-electronics industries and volatile products like non-monetary gold.

RENTAL MARKET

Singapore's industrial leasing sector saw a further slowdown in momentum in Q2, with total leasing volume[1] declining by 5.3% YoY to 3,123 tenancies. Other than warehouse spaces which recorded a marginal increase in signed tenancies, leasing demand softened across all segments. Leasing volume for single-user factory spaces fell by 27.3% YoY to 144 tenancies, marking the lowest since 2020. The occupier demand for multiple-user factory spaces remained relatively flat from the same quarter last year.

Nonetheless, the vacancy rate fell across all segments in Q2, reversing the increase in previous quarters. The vacancy rate for single-user and multiple-user factory spaces eased on the back of higher demand, falling to 12.0% (-0.2 of a percentage point (ppt) QoQ) and 8.7% (-0.8 of a ppt QoQ) respectively. Compared with Q1, the vacancy rate for warehouse spaces also decreased by 0.2 of a ppt to 8.7% in Q2.

JTC's industrial rental index continued increasing in Q2, albeit at a slower pace at 1.0% QoQ. While JTC rents for single-user factory also went up at a moderated pace of 1.3% QoQ, those for multiple-user factory rose at a faster pace of 1.5% QoQ in Q2. Savills' monthly prime industrial rents recorded further growth, with multiple-user factories[2] rents rising by 1.1% QoQ to S$2.26 per sq ft in Q2. JTC's warehouse rental index in Q2/2024 rose by 0.5% QoQ and this closely tallies with Savills' warehouse and logistics properties[3] rental increase which came in at 0.6% QoQ (to S$1.68 per sq ft).

SALES MARKET

The strata industrial sales activity[4] saw a recovery of 42.9% QoQ to 513 transactions in Q2, the highest level in almost two years. It was largely driven by the sales increase in multiple-user factory and warehouse spaces. While the uptick in sales was largely due to the sale of a portfolio of 44 units at Cititech by City Developments Ltd, another significant contributor came from the sales for a multiple-user factory called Food Ascent – the new ramp-up food factory which was launched for sale in Q1/2024.

In Q2/2024, the JTC industrial price index rose 1.2% QoQ, reversing the decline in Q1. Although the JTC price index for multiple-user factory space showed a healthy growth of 1.7% QoQ, Savills' basket of industrial properties recorded a slower price appreciation across all tenure types in Q2. Prices for freehold and 60-year leasehold industrial properties increased by 0.5% to S$830 per sq ft and 0.7% QoQ to S$516 per sq ft respectively, while those for 30-year leasehold industrial properties inched up 0.1% QoQ to S$325 per sq ft in Q2.

BUSINESS PARKS AND HIGH-SPEC INDUSTRIAL

Following six consecutive quarters of increase, the islandwide vacancy level for business parks eased by 0.3 of a ppt QoQ to 21.7% in Q2. Although there was an improvement in the occupancy rate in the one-north area, the occupancy rate for the older developments in the outskirts remains under pressure. The demand in the East Planning Region[5] has been softening as the key takers – businesses in technology and back-end banking operations – are downsizing or relocating to less-costly area. It is also becoming more challenging for the other older cluster, International Business Park, where vacancy rate has been hovering above that in Changi Business Park.

While the index of business park rents tracked by JTC slipped by 0.1% QoQ, after over two years of growth, Savills' standard business park[6] monthly rents posted a muted increase of 0.1% QoQ to S$4.07 per sq ft in Q2. Nonetheless, the newer clusters continue to lead the overall rental growth for business parks, with Savills' prime business park[7]

1 Based on JTC's rental data (excluding business park spaces, only comprises single- and multiple-user factory as well as warehouse spaces).
2 Based on Savills basket of private multiple-user factory properties which ranges from 1,000 sq ft to 3,000 sq ft in size, with an average monthly asking rent of at least S$1.50 per sq ft.
3 Based on Savills basket of private multiple-user warehouse properties which ranges from 2,000 sq ft to 80,000 sq ft in size, with an average monthly asking rent of at least S$1.30 per sq ft.
4 Based on JTC's sales caveat data, downloaded on 22 July 2024.
5 Where ESR Bizpark @ Chai Chee and Changi Business Park are located at.
6 Based on business park-zoned spaces in the older clusters which range from 1,000 sq ft to 5,000 sq ft in size, with an average monthly asking rent of at least S$3.50 per sq ft.
7 Based on business park-zoned spaces in the newer clusters which range from 1,000 sq ft to 5,000 sq ft in size, with an average monthly asking rent of at least S$5.50 per sq ft.

monthly rents increasing by 3.3% QoQ to S$6.31 per sq ft in Q2.

High-spec industrial spaces, especially those with good amenities and accessibility, continue to remain attractive. Alongside the strong rental level of recent developments, high-spec industrial rents are holding up. The Savills' high-spec industrial basket[8] posted an average rental increase of 0.6% QoQ to S$3.96 per sq ft in Q2.

TABLE 1: Rental Forecast for Multiple-user Factory and Warehouse & Logistics Segments

PERIOD	YoY % CHANGE IN MULTIPLE-USER FACTORY RENTS	YoY % CHANGE IN WAREHOUSE & LOGISTICS RENTS
2024F	0% to 2.2%	0% to 3%

Source Savills Research & Consultancy

OUTLOOK

Owing to a slew of global uncertainties, the Singapore manufacturing sector is expected to be negatively affected. Geopolitical tensions and the timing and scale of interest rate cuts by the Federal Reserve are key variables in today's market. Coupled with other challenges such as inflationary pressures, a slowdown in external growth, deglobalisation and spillovers from weaker growth in China, the industrial market is likely to continue seeing slowing growth momentum this year.

However, because the supply pipeline for multiple-user factories is low this year, rents for this segment may still rise. Also, as units in such factories are generally smaller, they are sought after by tenants who wish to keep their overheads low. As for prime warehouse and logistics space, given that most occupiers remain cost-conscious, rental growth for the rest of the year, though positive is likely to lose some momentum. Landlords may have to further lower their rental expectations when the bulk of prime warehouse space is completed next year.

With nearly 3.2 million sq ft NLA of new business park space (Punggol Digital District and Geneo) expected to complete by the end of next year, overall business park vacancy is likely to remain under pressure before the newly completed space can be absorbed. Based on the pre-commitment rate of 65% across Punggol Digital District which will complete in two phases by 2025, the overall business park vacancy rate is projected to hit over 22% this year when five out of the eight towers complete in phase 1 from September 2024. Older properties will continue to face occupational challenges as tenants with budgets may be drawn to newer Business Parks while those who face rental constraints may settle for pure no frills or high-spec industrial space. Arising from the completions in the newer digital districts, the problems for the older and even the latest business parks become compounded. This could in turn apply further pressure to business park rents, especially for the older developments. We are revising our rental forecast for multiple-user factory space from 0% to 0% to 2.2% for 2024. For the warehouse and logistics space, we maintain our 0% to 3% increase for the year.

8 Based on office-like industrial space which ranges from 2,000 sq ft to 4,000 sq ft in size, with an average monthly asking rent of at least S$3 per sq ft.