Briefing
Industrial sector

November 2018

Image: One-North, Ayer Rajah

SUMMARY

Rents for older industrial spaces to soften further.

- Compared to Q2/2018, industrial sales volume almost halved to 225 transactions in Q3/2018.

- Prices of 30- and 60-year leasehold upper-storey factory and warehouse units remained under pressure with a decline of 1.0% quarter-on-quarter (QoQ) to S$338 per sq ft and 0.2% QoQ to S$443 per sq ft respectively.

- Prices of freehold industrial properties continued their upward trajectory with four consecutive quarters of increases, moving up by 0.5% QoQ to S$693 per sq ft in Q3/2018.

- The leasing market for factory and warehouse space slowed down by 5.9% QoQ to 2,543 leases, with average monthly rents decreasing by 0.3% QoQ to S$1.13 per sq ft in Q3/2018.

- We believe that industrial rents may remain in a -0.5% to +0.5% year-on-year (YoY) band for 2019. This is predicated on no global economic slowdown due to a continued trade war or sharp rise in interest rates.

"Industrial rents have been falling longer than expected and the prospect of a trade war is not helping sentiment."
Alan Cheong, Savills Research

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Macro economy

According to the Ministry of Trade and Industry (MTI), Singapore's economic growth came in at a slower pace of 2.2% YoY in Q3/2018. Owing to high base effects and an escalation of the trade war between China and the United States, manufacturing growth eased as expected, recording an expansion of 3.5% YoY in the third quarter.

Following some bright spots in August and September where the Singapore Purchasing Manager's Index (PMI) recorded readings of 52.6 and 52.4 respectively, manufacturing sentiment dimmed in October as PMI slipped to the lowest record of the year at 51.9, 0.7 of a percentage point (ppt) lower than a year ago. The YoY growth of non-oil domestic exports (NODX) also eased from 11.0% in July to 5.0% and 8.3% in the subsequent two months. NODX growth was mainly supported by the pharmaceutical and food preparation sector. As a result, NODX registered a growth rate of 8.0% YoY in Q3/2018, extending the period of increase from the 9.3% YoY expansion in the preceding quarter.

Sales market

Compared to the second quarter this year, industrial sales volume almost halved to 225[1] transactions in the third quarter, down 48.7% from a year ago. Even though it was the lowest level of deals since early-2017, the total sales value in Q3/2018 surged to a new record high of S$1.7 billion, based on the caveats information[2] from JTC Corporation (JTC). The surge in sales was due to some major land sales such as a single-user factory site at Tuas and CWT Logistics Hub 3 (warehouse), which transacted at S$585 million and S$179 million respectively.

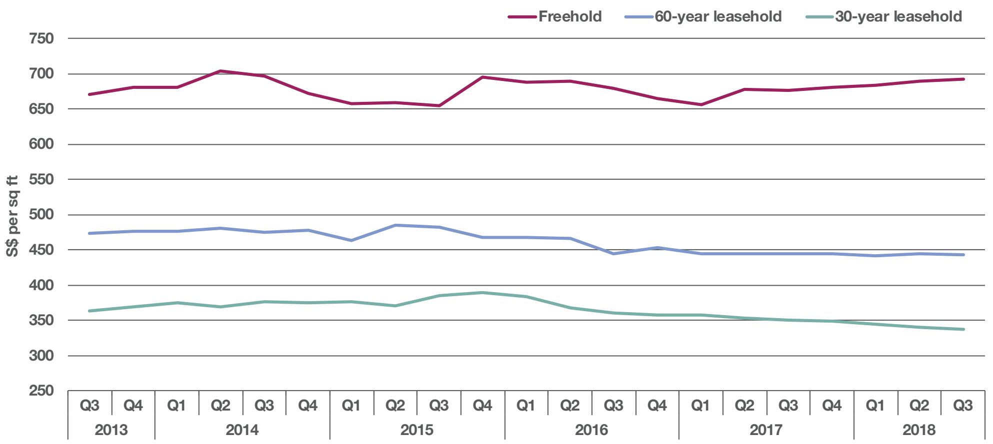
Excluding land sales, the strata sales market was relatively steady at a similar price trend as previous quarters. According to Savills basket of industrial properties[3], prices of 30-year leasehold industrial units remained under pressure with a 1.0% QoQ drop to S$338 per sq ft in Q3/2018, marking the eleventh quarter of decline. After a slight quarterly recovery of 0.4% in Q2/2018, prices of 60-year leasehold industrial units slipped 0.2% QoQ to S$443 per sq ft. Prices of freehold industrial properties continued their upward trajectory with four consecutive quarters of increase, moving up by 0.5% QoQ to S$693 per sq ft in Q3/2018.

Rental market

From the leasing data provided by JTC, industrial leasing activity slowed down by 5.9% QoQ to 2,543[4] leases in Q3/2018. However, the rental volume is still 17.2% higher than the quarterly average of 2,169 leases recorded for the last three years. Demand was driven mainly by higher net take-up of single-user factory and warehouse space, while multiple-user factory space saw a drop in the net absorption rate. As a result, the vacancy rate for single-user factory and warehouse space eased to 9.0% and 10.6% respectively, the sectors' lowest records since 2016. On the contrary, the net occupied

GRAPH 1

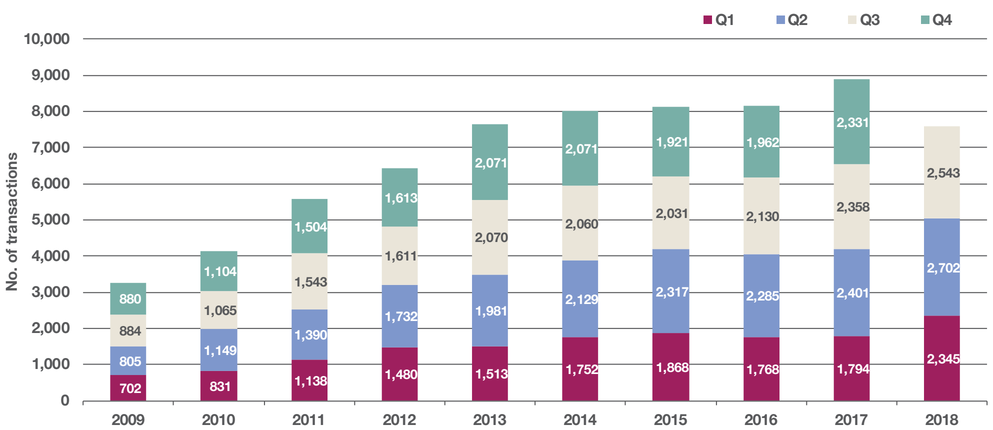
Prices of upper-storey factory and warehouse units, Q3/2013 – Q3/2018



Source: JTC, Savills Research & Consultancy

GRAPH 2

Leasing volumes of factories and warehouses, 2009 – Q3/2018



Source: JTC, Savills Research & Consultancy

1 Singapore Institute of Surveyors and Valuers REALink caveats as of 1 October 2018.

2 JTC caveats information is based on caveats lodged on industrial properties with the Singapore Land Authority.

3 Only include upper-storey factory (single-, multiple-user factory and business park) and warehouse units, excluding all ground floor units.

4 Excluding business park spaces, only comprises single- and multiple-user factory, as well as warehouse spaces.

area of multiple-user factory space dropped by 947,200 sq ft in the Central Region. Therefore, despite a positive take-up in some other planning regions and low net new supply of 280,000 sq ft in the quarter, the vacancy rate rose to 14.5% in Q3/2018, the highest since the data was constituted in 2009.

Although the occupancy levels for single-user factory and warehouse space improved, landlords did not manage to raise rents. JTC's rental indices showed a continuing rental decline for single-user factory and warehouse space, although the rate of decrease has moderated in the reviewed quarter. While the negative rental revisions for single-user factory moderated to -0.1% QoQ, the three-year rental decline for warehouse ended in Q3/2018. As vacancy levels worsened, the rental index for multiple-user factory space fell by 0.2% from the previous quarter. This could be the main contributing factor for the 0.3% QoQ decrease in the average prime monthly rent[5] for factory and warehouse space to S$1.13 per sq ft in Q3/2018.

Business parks and high-tech spaces

Amid rising office rents, demand for business park space and high-tech spaces remained on the high side in Q3/2018. The island-wide vacancy rate for business park space eased 1.0 ppt QoQ to 14.0%, reaching the highest occupancy level this year. This was due to the improved occupancy level in areas such as Changi Business Park (CBP) where demand picked up by 120,900 sq ft. Nevertheless, this did not necessarily lead to positive rental growth as monthly median rent at CBP fell 7.8% QoQ to S$3.90 per sq ft.

On an island-wide basis, the overall rental growth for business park space was supported by newer business park projects such as Mapletree Business City and One-North, which commanded higher rents. As such, JTC's business park rental index recorded a minor dip of 0.1% QoQ while Savills average monthly rents for business park space stood firm at S$4.05 per sq ft in Q3/2018.

Apart from business parks, high-tech industrial space offers another alternative for those who qualify to move into such premises but are currently occupying office premises and being squeezed by higher rental reversions. With technology advancements and a greater emphasis on diversifying into more value-added industries, there were positive spillover effects for the high-tech industrial market. Based on Savills basket of properties, the average monthly rents for high-tech space recorded a full-year YoY growth, rising 0.3% from last quarter to S$3.32 per sq ft in Q3/2018.

5 Based on Savills basket of factory and warehouse properties which are more than 10,000 sq ft on ground floor.

TABLE 1

Business park leasing transactions*

	Total value (S$)	Median rent (S$ per sq ft)
Changi Business Park	406,036	3.90
International Business Park	516,545	4.28
Science Park I	153,009	3.79
Science Park II	312,176	4.04
Mapletree Business City	1,617,331	6.20

Source: JTC, Savills Research & Consultancy

* Refers to contracted gross rent per month as declared by tenants to IRAS through its e-Stamping system. Some rental data in certain areas may be excluded as there were too few transactions for meaningful compilation.

OUTLOOK

The prospects for the market

In the face of escalating trade tensions and mounting weaknesses in emerging markets, the International Monetary Fund (IMF) lowered its world economic growth forecast from 3.9% to 3.7% for 2018. Along with long-term challenges in advanced economies, such as ageing populations and slowing productivity growth, the expansion is expected to moderate to 3.6% by 2022 to 2023.

The Monetary Authority of Singapore's (MAS) half-yearly macroeconomic review also addressed concerns that Singapore's economy is likely to be affected by downside risks arising from trade tensions as well as the maturation of global economic and tech cycles. The latest Economic Survey of Singapore Q3/2018 showed that economic growth is expected to moderate in Q4/2018. Manufacturing performance is likely to stay muted for the rest of the year amid potential downside risks as US-China trade tensions persist. Furthermore, the high base effects from 2017 could also weigh on growth for the last quarter of 2018. Hence, this led to a full-year forecast of 3.0% to 3.5% YoY for 2018, and 1.5% to 3.5% YoY for 2019.

As the pace of growth in the manufacturing sector continues to slow down, most firms expect the business situation to remain similar

OUTLOOK

The prospects for the market

to the previous quarter. While the rental performance of warehouse, business park and high-tech industrial sectors are likely to stay firm, with some support from e-commerce, food manufacturing and high value-added industries, the factory sector is expected to face some pressure. Especially with the upcoming factory supply spike of 14.5 million sq ft by 2019, industrialists may relocate to new projects, thus driving up the vacancy rate in older developments.

TABLE 2

Rental forecast for general industrial factory and warehouse space

Period	YoY% change industrial factory and warehouse rents
2018F	-1.0% to -2.0%
2019F	-0.5% to +0.5%
2020F	+1.0%

Source: Savills Research & Consultancy

Rents for the sector has been on a protracted downturn since Q3/2014 although there is the prospect of the manufacturing sector moving up the technological ladder, giving hope to the sector, the prospect of a trade war is now threatening to weigh down sentiments. We believe that the latter is the foremost risk factor that may disrupt our rental forecast (Table 2).

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