Industrial

Faster rental growth across all segments

Rents for high-spec factories and warehouses find support from growth industries.

- Leasing volume continued falling in Q3, albeit at a moderated rate of 6.3% YoY.
- Savills' average monthly rent for prime multiple-user factories, and warehouse and logistics properties increased by 0.4% QoQ to S$2.01 per sq ft and 2.8% QoQ to S$1.51 per sq ft respectively in Q3.
- Strata industrial sales activity slowed down by 15.7% QoQ to 452 transactions in Q3 as sales volume fell across all segments.
- Savills' basket of industrial properties showed that prices for 60-year leasehold and freehold industrial properties rose by 1.2% QoQ to S$463 per sq ft and S$758 per sq ft respectively in Q3.
- Savills' basket of industrial properties showed that 30-year leasehold property prices increased at a quicker pace of 0.9% QoQ to S$308 per sq ft in Q3.
- Savills' prime business park monthly rents stabilised at S$5.93 per sq ft in Q3. Savills' standard business park properties monthly rents increased marginally by 0.2% QoQ to S$4.04 per sq ft.
- The average monthly rent for Savills' high-spec industrial basket rose at the same pace at 1.1% QoQ S$3.69 per sq ft in Q3.
- We expect rents for both multi-user factories and warehouses to rise 5.0% YoY in 2023.

"Notwithstanding global economic problems, local industrial and warehouse rents are expected to rise in 2023."

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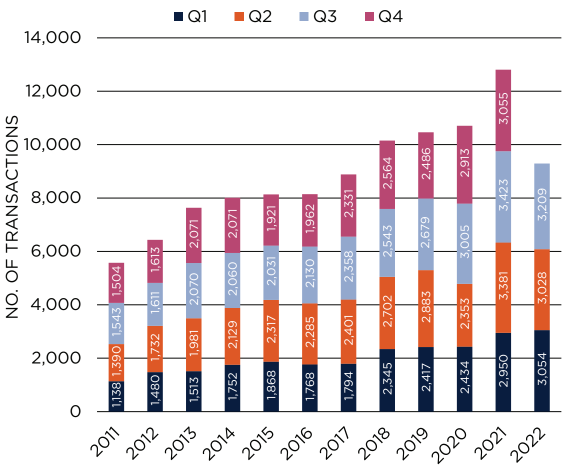
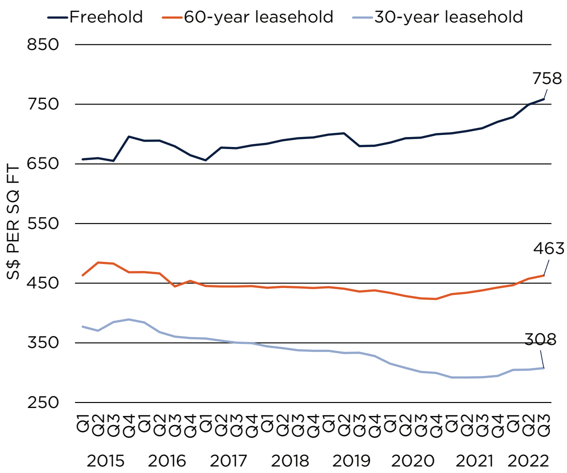
GRAPH 1: Factory and Warehouse Leasing Volumes, 2011 to Q3/2022



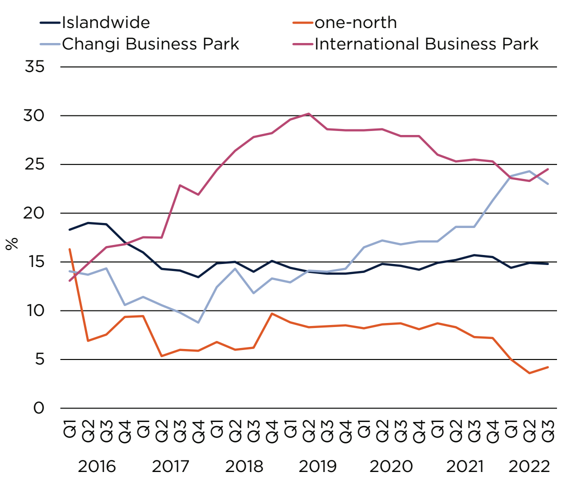
Source JTC, Savills Research & Consultancy

GRAPH 2: Prices of Upper-Storey Strata Factory and Warehouse Units, Q1/2015 to Q3/2022



Source JTC, Savills Research & Consultancy

GRAPH 3: Business Park Space Vacancy Rates, Q1/2016 to Q3/2022



Source JTC, Savills Research & Consultancy

MACROECONOMIC OVERVIEW

The Singapore economy expanded by 4.4% YoY in Q3/2022, slightly slower than the 4.5% YoY growth in Q2/2022. It was led by a pickup in activity across services industries and this made up for the slowdown in the manufacturing sector.

The overall factory activity in Singapore contracted for the first time in two years in September. In the face of weakened manufacturing sentiment arising from a slowdown in the global economies and also persistent price pressures, the Purchasing Managers' Index (PMI) ended its 26 straight months of expansion and slipped to 49.9 in September. Growth in Singapore's non-oil domestic exports (NODX) also decelerated in September, posting the slowest rate of 3.1% YoY since August last year.

RENTAL MARKET

Leasing volume[1] continued to fall in Q3, albeit at a moderated pace at 6.3% YoY, bringing the total number of transactions to 3,209 tenancies. The decline was attributed to fewer tenancies signed across all property types. Leasing demand for factory spaces continued to weaken in Q3 with leasing transactions for single- and multiple-user factory segments falling by 21.2% and 5.7% YoY respectively. While leasing demand for warehouse logistics space remained strong in prime areas, those for warehouses saw a marginal decline of 0.6% YoY.

The vacancy level for single-user factory rose by 0.5 of a percentage point (ppt) QoQ to 10.2% in Q3. This is likely to be due to an injection of new supply (580,000 sq ft) and some relocation among industrialists, particularly the West and North Planning Areas. Despite some major completions including JTC Defu Industrial City, the vacancy level for multiple-user factory inched up by just 0.2 of a ppt QoQ to 10.8% as demand for logistics space was still strong. Compared to the 9.1% vacancy level recorded in Q2, that measure stayed relatively stable at 9.2% as the take-up in Central and North Planning Regions were healthy.

The overall industrial rents continued to increase for eight consecutive quarters in Q3, with JTC's rental index for factory spaces rising at its fastest pace since 2016. For warehouse rents, the JTC's index rose again to its highest level in the last six years. Savills' average monthly rents also continued to increase in Q3, with rents for prime multiple-user factories[2] rising by 0.4% QoQ to S$2.01 per sq ft. With the support from healthy leasing momentum and a shortage of quality facilities, Savills' average monthly rents for warehouse and logistics properties[3] doubled the pace of increase to 2.8% QoQ and rose to S$1.51 per sq ft in Q3.

SALES MARKET

Following a short-lived uptick in Q2, strata industrial sales activity[4] fell 15.7% QoQ across all segments to 452 transactions. This could be partly attributed to the growing recession fears and rising cost of borrowing which weighed on investors' sentiments. Strata warehouse sales fell marginally to 24 deals in Q3, compared with 34 in Q2. The sales volume for multiple-user factory declined from 497 in Q2 to 424 deals in Q3. However, the sales momentum for West Connect Building continued to hold up while other projects saw a muted sales take-up in Q3.

Industrial sales prices continued trending up in Q3, even though the overall price increase of properties with longer tenures halved from the previous quarter. Savills' basket of industrial properties showed that prices for 60-year leasehold and freehold industrial properties rose by 1.2% QoQ to S$463 per sq ft and S$758 per sq ft respectively in Q3. Apart from the longer remaining tenure and nature of freehold leases, the rise in prices was driven by the strong price growth for food factory properties. On the other hand, Savills' basket of industrial properties showed that 30-year leasehold property prices increased at a quicker pace of 0.9% QoQ to S$308 per sq ft in Q3. It could be led by stronger interest among some businesses which prefer properties of a lower quantum, and therefore these are of shorter lease tenures, to mitigate their risks amid rising economic uncertainty and elevated market volatility.

BUSINESS PARK AND HIGH-SPEC INDUSTRIAL

In Q3, business park is the only segment which saw a slight improvement in occupancy level. It is likely led by an increase in appetite for taking up business park space amid the tightening of office supply. Although one-north and International Business Park (IBP) recorded higher vacancy level in Q3, the islandwide vacancy level for business park space eased by 0.1 of a ppt QoQ to 14.8% due to higher take-up in the Changi Business Park (CBP) and CleanTech Park locations. Nonetheless, vacancy level in areas such as Science Park, IBP and CBP remained under pressure due to locational factors that lead to weaker connectivity to main transport nodes. Moreover, business consulting firms,

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 2 November 2022.

which formed the main bulk of the tenants in CBP, are largely downsizing their premises as their businesses were disrupted by remote working arrangements. As such, most landlords continued to keep their rents competitive to fill vacancies, resulting in a marginal increase of 0.2% QoQ in Savills' standard business park properties[5] monthly rents to S$4.04 per sq ft. Following four quarters of steady rental growth, Savills' prime business park[6] monthly rents started to stabilise at S$5.93 per sq ft in Q3.

High-spec industrial rents continued to increase on the back of growing occupier demand as businesses look for prime office-like industrial spaces. According to Savills' high-spec industrial basket[7], the average monthly rent for high-spec industrial properties rose at the same pace at 1.1% QoQ S$3.69 per sq ft in Q3, setting a record high since the series was constituted in 2012.

OUTLOOK

As the external environment grows more challenging, the Singapore economy is projected to see a slowdown. The tightening of global financial conditions and protracted pandemic restrictions in some countries are expected to weigh on the trade-related sectors in the coming quarters. As the latest economic indicators are collectively projecting a manufacturing slowdown, more industrialists might become more cautious in their expansion plans. The weakening global growth outlook and heightened headwinds are also expected to dampen industrial sentiment.

Nevertheless, demand for industrial spaces, especially modern high specification warehouses, as well as high-spec industrial and business parks with excellent connectivity and amenities will still be underpinned by growth industries such as the logistics, food, precision engineering and biomedical sectors. Coupled with the rise in service charges, rents are expected to continue on an upward trend as landlords pass on higher business costs to tenants.

Notably, there is a dearth of supply of warehouse space after 2024 when no significant new supply is expected to come on stream. This could put further upward pressure on warehouse rents. Prior to that, rents for prime warehouse and logistics properties are expected to rise by 5.0% YoY for each year in 2022 and 2023. Although rental growth for prime multiple-user factory spaces is forecast to moderate to 5% YoY in 2023, it is likely to see high growth for new food factories which are expected to complete next year.

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
2022F	10% to 12%	2% to 5%
2023F	4% to 6%	2% to 5%

Source Savills Research & Consultancy

5 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.
6 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.
7 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.