MARKET IN MINUTES
Savills Research

Industrial

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Muted industrial leasing activity in Q4

Slowdown in industrial rental growth amid economic uncertainties.

- Leasing volume continued to trend downwards in Q4, albeit at a moderated rate of 3.5% year-on-year (YoY).
- Savills' average monthly rent for prime multiple-user factories remained unchanged at S$2.01 per sq ft on a quarter-on-quarter (QoQ) basis in Q4, while that for warehouse and logistics properties rose further by 1.3% QoQ to S$1.53 per sq ft.
- Strata industrial sales activity trended down further by 18.7% QoQ to 409 transactions in Q4 as sales volume fell across all segments.
- Nevertheless, Savills' basket of industrial properties showed that prices for 60-year leasehold and freehold industrial properties rose by 2.4% and 2.3% QoQ to S$474 per sq ft and S$776 per sq ft respectively in Q4.
- Savills' basket of industrial properties showed that 30-year leasehold property prices increased 2.0% QoQ to S$314 per sq ft in Q4.
- Savills' prime business park monthly rents declined marginally by 0.3% QoQ to S$5.91 per sq ft in Q4, after five consecutive quarters of growth. Savills' standard business park properties monthly rents fell by a larger 1.1% QoQ to S$4.00 per sq ft.
- The average monthly rent for Savills' high-spec industrial basket rose at a slightly muted 0.5% QoQ to S$3.71 per sq ft in the quarter.
- Given the strong demand for logistics and food factory space and an environment where heightened inflation persists, rents in 2023 are expected to rise with multiple-user factory rents increasing 3% to 5% and logistics & warehouses rising by 3% to 6%.

"Although lower leasing transactions are expected in 2023, industrial rents are still expected to rise, supported by inflation and the need to hedge against potential supply chain disruption."

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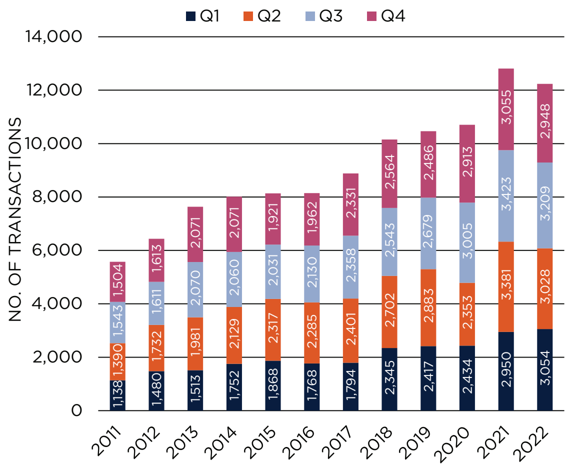
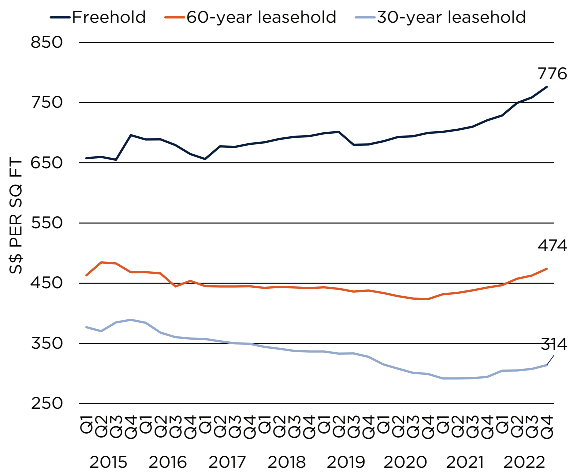
GRAPH 1: Factory and Warehouse Leasing Volumes, 2011 to 2022



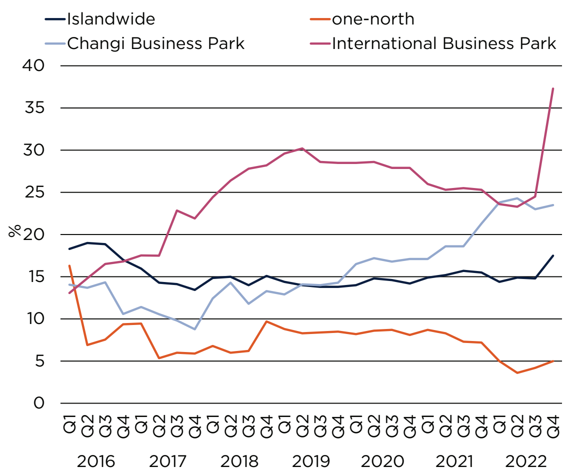
Source JTC, Savills Research & Consultancy

GRAPH 2: Prices of Upper-Storey Strata Factory and Warehouse Units, Q1/2015 to Q4/2022



Source JTC, Savills Research & Consultancy

GRAPH 3: Business Park Space Vacancy Rates, Q1/2016 to Q4/2022



Source JTC, Savills Research & Consultancy

MACROECONOMIC OVERVIEW

The Singapore economy grew 2.1% YoY in Q4/2022, down from the 4.0% YoY growth in Q3/2022. Growth in the final quarter was largely attributed to the expansion in the construction sector and services producing industries. The manufacturing sector however, contracted from the output decline in the biomedical manufacturing, chemicals, electronics and general manufacturing clusters. As such, Singapore's economy expanded 3.6% for the whole of 2022, down from the 8.9% in 2021, when Singapore emerged from the economic slump in 2020 due to the pandemic. The manufacturing and construction sectors, along with the services producing industries recorded YoY growth of 2.5%, 6.7% and 4.8% respectively. For the manufacturing sector, all clusters expanded, except for the chemicals and biomedical manufacturing clusters.

From September 2022, when overall factory activity began contracting, the weaker sentiments in the manufacturing sector persisted arising from weaker global demand and a slowdown in the global economy. The Purchasing Managers' Index (PMI) remained in the contraction territory for the fourth consecutive month, with the PMI declining marginally by 0.1 point to 49.7 in December 2022. The negative sentiments in the manufacturing sector was also felt with the continual contraction in Singapore's non-oil domestic exports (NODX), which fell further by 20.6% YoY in December 2022.

RENTAL MARKET

Leasing volume[1] continued trending downward in Q4, albeit at a moderated pace at 3.5% YoY, bringing the total number of transactions to 2,948 tenancies. In the quarter, fewer tenancies were signed across all property types. Leasing demand for factory spaces slowed further in Q4, but at a more muted pace, with leasing transactions for single- and multiple-user factory segments falling by 15.5% and 1.2% YoY respectively. For the warehouse sector, leasing volume recorded the second consecutive quarter of yearly decline with a much larger 9.4%. As such, the total leasing volume for the whole of 2022 fell 4.4% YoY, the first decline recorded since 2011 when leasing transactions declined 20.0%. The decrease was largely arose from the single- and multiple-user factory spaces.

In a similar light, the vacancy level for single-user factory grew for the sixth consecutive quarter by a larger 0.7 of a percentage point (ppt) QoQ to 10.9% in Q4. This was likely to be due to the addition of 2.73 million sq ft of new supply, as well as some relocation among industrialists.

1 Based on JTC's rental data (excluding business park spaces, only comprises single- and multiple-user factory as well as warehouse spaces).

Significant increases in vacancy rates were observed in the East (1.3 ppts) and North (2.6 ppts) Planning Regions. For the multiple-user factory segment, while its islandwide vacancy rates continued to increase, the rise was a marginal 0.1 of a ppt QoQ, to 10.9% in Q4. The large increase of 2.7 ppts in the North Planning Region was largely offset by the declines in vacancy levels in the East (-0.9 of a ppt) and North East (-1.8 ppts) Planning Regions. On the other hand, the warehouse vacancy level declined 0.9 of a ppt to 8.3% in the quarter, a reversal from the marginal 0.1 of a ppt increment in the previous quarter. This was partially due to a contraction in supply. Vacancy rates in all the Planning Regions were observed, except for the North Planning Region that recorded a 2.8 ppt increase.

The overall industrial rents continued the upward trend for the ninth consecutive quarter in Q4, with JTC's rental index for multiple-user factory spaces increasing 2.6% QoQ, the largest quarterly increase since Q3/2013 when the rental index expanded 4.4%. The rental index for single-user factory spaces rose in the quarter as well, increasing 1.3% QoQ, a slightly moderated pace compared to the 2.0% in the previous quarter. The annual growth in 2022 of 4.1% and 8.3% in the JTC rental index of single- and multiple-user factory spaces respectively were the highest since 2012 when the rental index rose 12.9% and 9.6% respectively. For warehouse rents, the JTC's index continued to rise on a QoQ basis, surpassing the highest level attained in the previous quarter to 92.8 in Q4. This was a 2.2% increase QoQ, the highest quarterly increase since Q4/2013 when the rental index grew 3.4%. Savills' average monthly rents for prime multiple-user factories[2] remained unchanged in Q4 at S$2.01 per sq ft, after increasing for the past seven consecutive quarters. On the other hand, the healthy leasing demand and a shortage of quality facilities led to Savills' average monthly rents for warehouse and logistics properties[3] to continue rising, increasing 1.3% QoQ to S$1.53 per sq ft in the quarter.

SALES MARKET

Following the decline in Q3, strata industrial sales activity[4] across all segments continued to fall in Q4. For the quarter in review, there were 432 transactions. The global economic uncertainties and slowing manufacturing sector may have led to investors being cautious on their purchasing decisions. Strata warehouse sales fell further to 23 deals in Q4.

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 13 February 2023.

In Q3, 29 transactions were recorded. Similarly, the sales volume for multiple-user factory declined 18.7% QoQ from 503 in Q3 to 409 in Q4.

Nevertheless, industrial sales prices still trended up in Q4, picking up the pace of increase from the previous quarter. Savills' basket of industrial properties showed that prices for 60-year leasehold and freehold industrial properties rose by 2.4% and 2.3% QoQ to S$474 per sq ft and S$776 per sq ft respectively in Q4. 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. Similarly, Savills' basket of industrial properties pointed to 30-year leasehold property prices increasing at a faster pace of 2.0% QoQ to reach S$314 per sq ft in Q4. This may be due to stronger interest among some businesses/investors favouring properties of lower price quantum when they wished to mitigate the risks from rising economic uncertainties and elevated price volatility. Given that values are inversely proportionate to lease tenures, the 30-year industrial leaseholds benefitted from this.

BUSINESS PARK AND HIGH-SPEC INDUSTRIAL

In the last quarter of 2022, business park recorded the largest increase in vacancy rate across the industrial property segments. The vacancy level for this segment of the industrial market rose 2.7 ppts to 17.5%. This was largely contributed by a 9.3 ppts in vacancy levels in business parks in the West Region. In particular, vacancy rates in International Business Park (IBP) surged 12.8 ppts from 24.5% in Q3 to 37.3% in Q4. Apart from the weaker connectivity to main transport nodes, the higher vacancy levels were also attributed to the partial completion of Perennial Business City in the quarter. Apart from the performance at IBP, the vacancy levels at one-north and Changi Business Park (CBP) grew 0.8 of a ppt and 0.5 of a ppt respectively in the quarter. For CBP, the increase in vacancy rate came after a 1.3 ppts decline in vacancy level in Q3. Business parks that are not as well-connected to major transport nodes and do not have quality features may be less favoured by tenants. Hence, landlords will need to reduce their rents to try to shore up the occupancy. This was evident when we look at the monthly rent from Savills' standard business park properties[5]. They fell 1.1% QoQ after two consecutive quarters of increase to S$4.00 per sq ft in Q4. However, Savills' prime business park[6] monthly rents declined marginally by 0.3% QoQ after five consecutive quarters of growth to S$5.91 per sq ft in the quarter.

High-spec industrial rents continued rising due to increasing occupier demand as businesses who qualify to located into industrial buildings look for such buildings with an office look and feel.

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.

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
2023F	3% to 5%	3% to 6%

Source Savills Research & Consultancy

According to Savills' high-spec industrial basket[7], the average monthly rent for high-spec industrial properties rose at a slightly muted 0.5% QoQ in Q4, as compared to the 1.1% in the past two quarters, to S$3.71 per sq ft.

OUTLOOK

The key themes surrounding the industrial and logistics (warehousing) sector for 2023 are expected to be:

1. Inflation
2. Building Resilience to Supply Chain Disruption
3. Cost Control

For points 1 and 2, it is ultimately likely to lead to greater stocking up as end users attempt to hedge against both rising cost and potential breaks in the supply of goods. Obviously, this is a positive on industrial and warehousing space demand. On the matter of cost control however, it could be a negative on demand. As economic challenges grow and the tech sector restructures to move into a new phase of growth, companies may feel the need to scale back on overheads like labour and rents.

On the demand side, the industries which are expected to do well this year are:

1. Advanced Manufacturing
2. Food and Novel Food Consumer Services
3. Logistics and Supply Chain

Although the manufacturing and warehousing sectors are expected to face a tug of war between inflation-supply resilience versus cost control, there are bright spots including industries such as those listed above.

Activities involving information communication technology (ICT), automation, computation, 3D printing (additive manufacturing), sensing, and networking, are expected to expand in volume. Industries in electronics, semiconductors, robotics, pharmaceuticals, medical products, fast moving consumer goods (FMCG) and aerospace engineering are expected to be the drivers contributing to the economy, driving demand for high spec industrial spaces.

The Singapore Government's 30-by-30 Plan – to build up our agri-food industry's capability and capacity – aims to produce 30% of our nutritional needs locally and sustainably by 2030. At its core is the push for a holistic food-related infrastructure. With strong support from the government, it should on paper lead to an increase in demand for higher quality food facilities, both by local and international players.

On growth in the Logistics and Supply Chain industries, this ties in with the point on Building Resilience to Supply Chain Disruption. Over the past three years, global supply chains have been put through a series of severe tests. Companies are having to deal with huge demand volatility triggering short and varied cycles of decision making. Also, with manufacturing activity breaking out into regional clusters (instead of being concentrated in certain countries), supply chains will be redrawn. With the lessons learnt from the pandemic and future lessons likely to be learned from the on-going re-routing of global supply chains, different companies are responding in varied ways – from securing supply at any cost to building inventory stockpiles and re-aligning supply markets to avoid future disruptions.

Although economic conditions are becoming ever more challenging by the month, the outlook for industrial and logistics facilities here should be driven by a tug of war between companies which can adapt to the new clime of advanced manufacturing, food and novel food customer services and modern supply chain management versus those which struggle under the changing circumstances. On top of this, one has to be mindful of the pandemic induced supply backlog coming on line in 2023 and this should provide additional choices for end-users.

On balance, we believe that given the strong demand for logistics and food factory space plus an environment where heightened inflation will continue to influence monetary measures, rents in 2023 are expected to rise. Please refer to Table 1.

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.