MARKET IN MINUTES

Savills Research

Industrial

Rental growth set to moderate this year

Flight-to-quality drives prime logistics and high-spec industrial demand.

- The industrial market saw a pick-up in leasing momentum in Q4, with total leasing volume rising by 4.1% YoY to 3,070 tenancies.
- Savills' monthly prime industrial rents for warehouse space continued rising in Q4, with warehouse and logistics properties rents rising by 1.7% QoQ to S$1.65 per sq ft (+7.4% YoY). Although Savills' monthly prime industrial rents for multiple-user factories remained firm at S$2.22 per sq ft in Q4, rents still rose by 10.5% from a year ago.
- Strata industrial sales volume continued to taper in Q4, falling by 8.6% QoQ to 370 transactions.
- Prices for freehold and 60-year leasehold industrial properties increased at a faster rate at 0.7% to S$808 per sq ft and 1.1% QoQ to S$504 per sq ft respectively, while that for 30-year leasehold industrial properties inched up 0.2% QoQ to S$323 per sq ft in Q4.
- Savills' prime business park monthly rents remained flat at S$5.90 per sq ft in Q4.
- As some landlords of the standard business park properties may have begun lowering their rental expectations to keep their premises occupied, the monthly rents of Savills' standard business park properties fell 1.7% QoQ to S$4.03 per sq ft.
- According to Savills' high-spec industrial basket, the average monthly rent increased 1.9% QoQ to S$3.90 per sq ft in Q4.
- Challenging business conditions and high borrowing costs may throttle back demand on industrial sales activity. However, for local and overseas small and medium sized enterprises, they may opt to contain their costs by turning to smaller spaces in better located and newer multi-user factories. Warehouses will continue to see firm demand from companies needing to stockpile in view of a resurgenge of risk e.g. Red Sea. We expect multi-user factory rents to remain flat with warehousing rents ranging from 0% to +3% this year.

> "Although economic and political turbulence continues to buffet the manufacturing and export sectors, rents for newer and better located industrial properties are expected to stay resilient."
>
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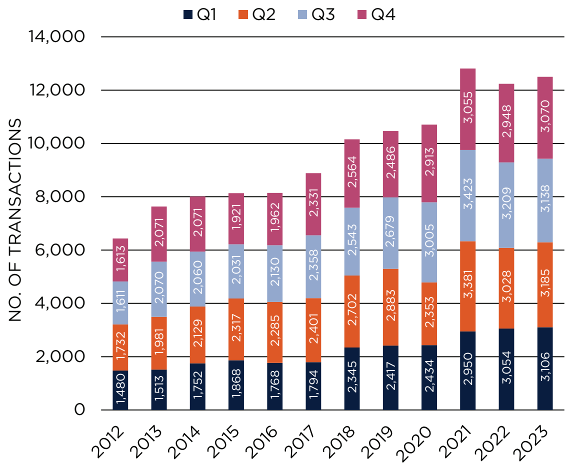
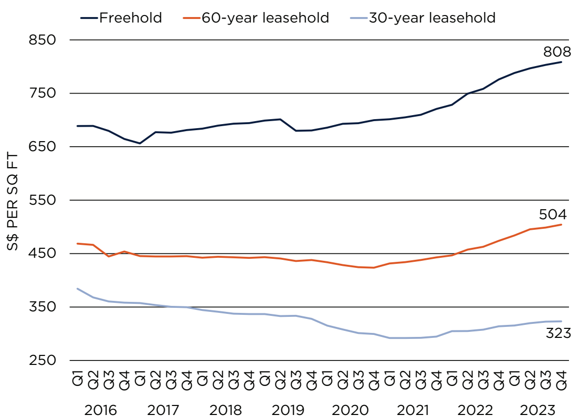
GRAPH 1: Leasing Volumes of Factories and Warehouses, 2012 to Q4/2023



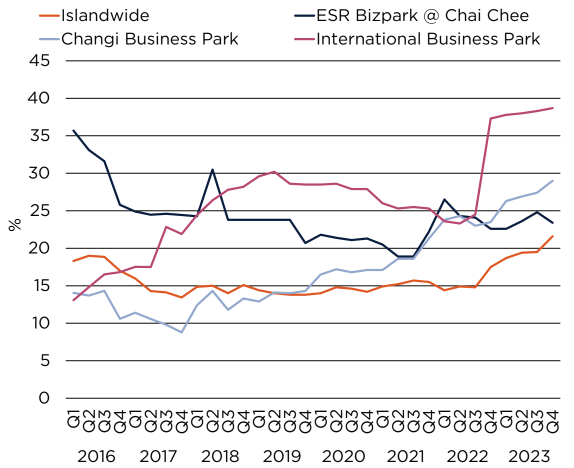
Source JTC, Savills Research & Consultancy

GRAPH 2: Prices of Upper-Storey Strata Factory and Warehouse Units, Q1/2016 to Q4/2023



Source JTC, Savills Research & Consultancy

GRAPH 3: Business Park Space Vacancy Rates, Q1/2016 to Q4/2023



Source JTC, Savills Research & Consultancy

MACROECONOMIC OVERVIEW

Arising from a recovery in the manufacturing sector and continued expansion in construction output, Singapore's economic growth accelerated in Q4/2023. The manufacturing sector expanded by 1.4% YoY in Q4, reversing from the 4.9% contraction in Q3. According to the Ministry of Trade and Industry, the Singapore economy grew 2.2% YoY in Q4/2023, surpassing the 1.0% expansion in the previous quarter. For the whole of 2023, the economy expanded by 1.1%, easing from the 3.8% growth in 2022.

Manufacturing sentiment improved further in Q4 with the Singapore's purchasing managers' index (PMI) inching up to 50.5 in December from 50.1 in September. On the other hand, Singapore's key exports slipped back into contractionary territory in December, driven by continued weakness in shipments of electronics and slower growth in pharmaceuticals. Non-oil domestic exports (NODX) fell by 1.5% YoY in December, following a short-lived increase in November.

RENTAL MARKET

The industrial market saw a pick-up in leasing momentum in Q4, with total leasing volume[1] rising by 4.1% YoY to 3,070 tenancies. It was attributed to the higher leasing demand for warehouse (+23.9% YoY) and single-user factory (+10.2% YoY) spaces. This brings the total number of tenancies signed in the whole year of 2023 up to 12,499, which is 2.1% higher than the previous year. Notably, this was near the highest record (12,809 tenancies) in 2021.

As the flight-to-quality trend continues to intensify in Q4, it helped boost the sector's growth in 2023 with improved take-up for new and prime multiple-user factory and warehouse space. This helped to ease the multiple-user factory vacancy to a 10-year low at 9.5% (-0.8 of a percentage point (ppt) QoQ). The vacancy rate for warehouse space also fell by 0.3 of a ppt QoQ to 8.4% in Q4.

Industrial rents continued to grow on the back of stable demand in Q4. The index of general industrial rents tacked by JTC extended gains in Q4, rising over the last three years to new record high. While rents for single-user factory and warehouse segments saw a slower pace of growth at 0.7% QoQ and 1.6% QoQ respectively, those for multiple-user factory segment grew at a faster rate of 2.3% QoQ. Savills' monthly prime industrial rents for warehouse space remained on a positive trend in Q4, with warehouse and logistics properties[2] rents rising 1.7% QoQ to S$1.65 per sq ft (+7.4% YoY). Although Savills' monthly prime industrial rents for multiple-user factories[3] remained firm at S$2.22 per sq ft in Q4, rents had grown by 10.5% from a year ago.

SALES MARKET

Strata industrial sales volume[4] continued to taper in Q4, falling by 8.6% QoQ to 370 transactions. The overall buying sentiments were likely to be affected by the heightened headwinds and uncertainty in the manufacturing industry and higher borrowing costs. Even though sales momentum for the warehouse space picked up by 61.5% QoQ, overall sales were dampened by muted demand for multiple-user factory space (-14.1% QoQ).

Despite the moderated sales momentum, industrial prices continued to grow, with the JTC price index rising since Q2/2021. Savills' basket of industrial properties showed prices growing across all tenure types in Q4. Prices for freehold and 60-year leasehold industrial properties increased at a faster rate at 0.7% to S$808 per sq ft and 1.1% QoQ to S$504 per sq ft respectively, while that for 30-year leasehold industrial properties inched up 0.2% QoQ to S$323 per sq ft in Q4.

BUSINESS PARK AND HIGH-SPEC INDUSTRIAL

Islandwide vacancy level for business parks hit 21.6% (+2.1 ppts QoQ) in Q4, the highest since 2011. This was mainly attributed to poor take-up rate in the Central Region[5], where vacancy level went up by 3.8 ppts QoQ to a five-year high of 11.0% in Q4. While overall vacancy level at Mapletree Business City and Science Park rose by 3.5 ppts QoQ to 13.7%, that at one-north worsened by 4.0 ppts QoQ to 8.5% in Q4. Despite the improved take-up in ESR Bizpark @ Chai Chee, the overall vacancy level in the East Planning Region continued to rise on the back of subdued demand in Changi Business Park.

The rising vacancy rate has put pressure on landlords to keep their rental expectations realistic to retain existing tenants or attract new clients. With index of business park rents tracked by JTC rising at a moderated pace of 0.3% QoQ, Savills' prime business park[6] monthly rents remained flat at S$5.90 per sq ft in Q4. On the other hand, some landlords of the standard business park properties may have begun lowering their rental expectations to keep their premises occupied. This resulted in a 1.7% QoQ decline in the monthly rents

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 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.
3 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.
4 Based on JTC's sales caveat data, downloaded on 22 January 2024.
5 Where Mapletree Business City, Science Park and one-north are located at.
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.

of Savills' standard business park properties[7] to S$4.03 per sq ft.

Flight-to-quality trend remained a top driver of leasing activity in the high-spec industrial market. As demand for such modern high-spec industrial spaces remained strong, their rents outperformed the other industrial segments. According to Savills' high-spec industrial basket[8], the average monthly rent increased 1.9% QoQ to S$3.90 per sq ft in Q4. This is likely to be the main driver leading the rental growth for JTC's rental index for multiple-user factory spaces, while traditional factory spaces are expected to experience tampered rental growth.

OUTLOOK

The global economy will continue to be weighed down by geopolitical uncertainties which could lead to further supply disruptions and commodity price shocks. Although the US Federal Reserve is likely to reduce its benchmark interest rate this year, borrowing costs are expected to remain high as Singapore banks are unlikely to lower their interest rates significantly in 2024 amid the ongoing economic uncertainties and rising costs. With the anticipated recovery in global electronics demand this year, the manufacturing sector is expected to continue expanding. This should lend some support to the demand for industrial space across the high-spec industrial and prime logistics segments.

While global supply chains face supply disruptions and higher shipping costs due to the crisis in the Red Sea and the drought conditions in the Panama Canal, it is expected to have limited impact on Singapore as most of the critical supplies are delivered by air freight. Also businesses here are more inclined to hedge against disruptions, and thus stock up to add buffer. However, most of the bulking up had taken place in the past 3 years. As such, although warehousing demand should remain strong, we are unlikely to see another surge in demand for warehouse space for stockpiling. Moreover, Singapore's consumer spending growth may stay slow in 2024 as inflationary pressures are prompting individuals and households to tighten their belts. Others might also prefer to spend overseas as evidenced by the increase in outbound travel. As the capacity for consumption could be limited in the near term, businesses are less likely to need more industrial space for goods. With a slew of new developments (2.4 million sq ft multiple-user factory GFA, 4.2 million sq ft warehouse GFA) in the pipeline this year, industrial rents are anticipated to see moderate growth in 2024 alongside high operating costs and challenging business environment abroad and locally.

7 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.
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.

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%	0% to 3%

Source Savills Research & Consultancy