A STABLE OUTLOOK INTO 2019

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Summary & Recommendations

The overall industrial property market ended 2018 with signs of stabilisation as selected segments might have found the bottom.

> Rents at business parks rose 2.9% yoy while factory and logistics rents remained under pressure yoy.

> Manufacturing momentum is still strong but could moderate in 2019. We expect healthy demand for new business park spaces, high-spec buildings, data centres and central kitchens.

> We recommend that industrialists consider sale and leaseback options to focus on their core operations. Landlords of ageing properties should consider upgrades and enhancements to be ready for Industry 4.0.

		H2 2018 Half Year	2019F Full Year	2018–2023F Annual Average
Demand	2019 demand should continue the momentum in 2018 and outpace supply, which is mostly single-user pre-committed space. We forecast annual demand to moderate to 9.6 million sq ft over 2018-2023.	5.7mn sq ft *	17.6mn sq ft *	9.6mn sq ft *
Supply	We expect Island-wide industrial supply to increase 150% yoy in 2019, before tapering off in 2020. The 2019-2020 expansion averages 4.7% of total stock, compared to the 7.8% seen during the last supply peak in 2016-2017.	2.6mn sq ft *	14.6mn sq ft *	9.3mn sq ft *

		HOH / End 2018	YOY / End 2019F	Annual Average Growth 2018–23 / End 2023F
Rent (psf pm)	Forecasted rents are for the warehouse-logistics segment only, where vacancy remains high, leading to flat rents at the end of 2019. High-spec and business parks should fare better due to higher demand.	0% SGD1.25 #	0% SGD1.25 #	+0.2% SGD1.26 #
Vacancy	We expect vacancy rates to improve gradually across all segments as the market continues to absorb the large supply influx in 2016-2017 and new completions slow from 2020 onwards.	- 0.6pp 10.7%	-0.9pp 9.8%	-0.2pp 9.6%
Capital Values/ Yields **	We expect overall industrial capital values to stay stable in the near term before picking up due to stronger rents. Freehold and long leasehold space should continue to be more popular with investors.	0pp 6.0%	0pp 6.0%	0pp 6.0%

Source: Colliers International. Note: USD1 to SGD1.365 as at 31 December 2018. 1 sq metres = 10.7639 sq feet. "pp" refers to percentage point.
*On a net lettable area basis #Rental values refer to warehouse-logistics rents **Yields refer to industrial properties with 30-year land lease

LEASING MARKET AND RENTS

Moderating manufacturing growth expected in 2019

Based on advance estimates from the Ministry of Trade and Industry (MTI), Singapore's GDP grew 2.2% yoy in Q4 2018, easing slightly from the 2.3% in Q3 and driven primarily by manufacturing, which rose to 5.5% yoy from 3.7% in Q3 mainly due to expansions in biomedical and electronics. For the whole year of 2018, Singapore's GDP grew by 3.3%. In its latest Country Economic Forecasts report on 16 January 2019, Oxford Economics forecasts GDP growth to moderate to 2.5% in 2019 with manufacturing and export momentum easing due to a potential slowdown in China's domestic economy, trade protectionism and concerns for a trade war. This is in line with MTI's earlier November 2018 outlook which forecast 2019 GDP growth in a range of 1.5–3.5%.

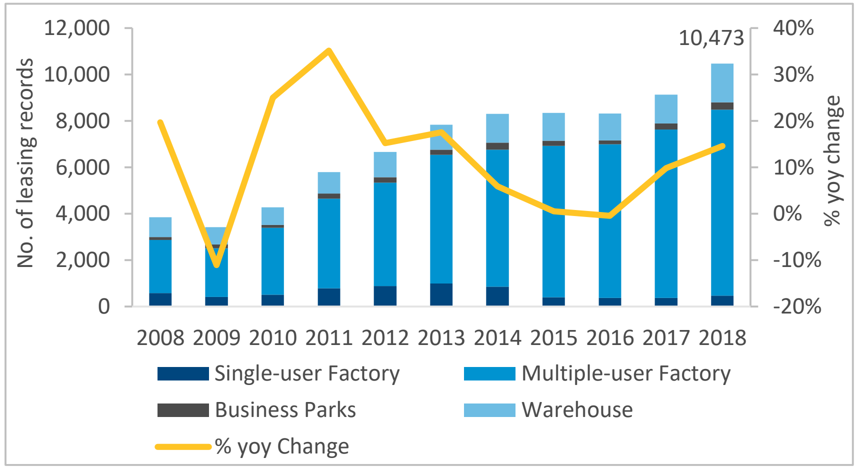
Leasing volume reached a new high on yearly basis

Leasing volume continued the upward trend from the first half of 2018 and totaled 5,280 in H2, as the market absorbed the abundant supply that entered in 2017 and 2018. According to JTC – Singapore's lead agency to spearhead the planning, promotion and development of the industrial landscape – 2018 saw 10,473 leasing records, a 14.6% jump yoy and the highest annual volume since the start of the database in 2000. Full-year net new demand outpaced net new supply for the first time since 2011, resulting in an improving occupancy rate by 0.4 pp yoy to 89.3% in 2018.

A two-tiered industrial market

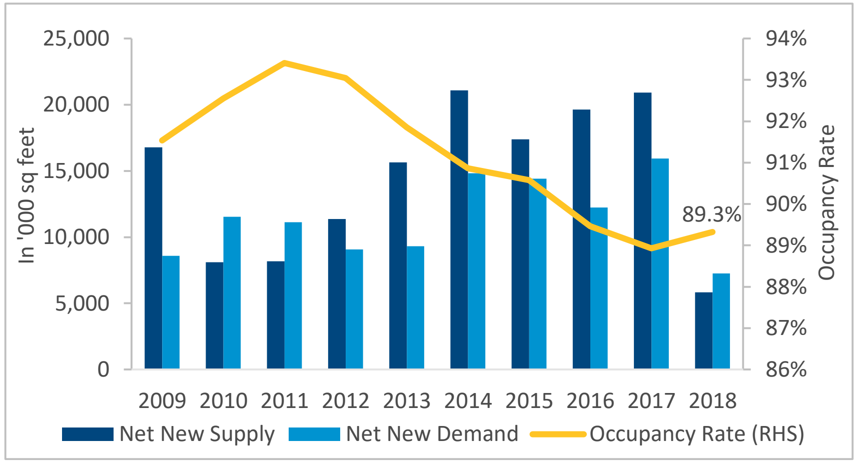
According to Colliers International's research, business park monthly rents increased 1.7% hoh and 2.9% yoy to SGD4.31 (USD3.16) per sq foot in H2 2018 as tenants continued to favour newly completed and refurbished buildings with better specifications and good locations. Upper floor monthly rents for independent high-spec industrial buildings located outside of science parks and business parks increased 2.1% yoy to SGD2.90 (USD2.12) per sq foot. Meanwhile, average gross monthly rents of warehouse-logistics properties remained unchanged hoh and edged down 0.8% yoy to SGD1.25 (USD0.92) per sq foot.

Breakdown of leasing records by types



Source: Colliers International, JTC (as of 31 January 2019)

All-industrial new supply, demand & occupancy rate



Source: Colliers International, JTC (as of 31 January 2019)

Full-year 2018 net new supply of industrial space was relatively low at 5.8 million sq feet (543,000 sq metres), including 2.7 million sq feet (247,000 sq metres, net) of warehouse space. Total net new supply in 2018 is a 72% fall from the record of 20.9 million sq feet (1.9 million sq metres, net) of industrial space across all types completed in 2017. According to JTC, new supply in 2019 is set to increase to 16.2 million sq feet (1.5 million sq metres, gross), with 64% of that single-user factories, before easing from 2020 onwards. The supply pipeline for is mainly located in the West Region, while factory future stock is predominantly in the West, North and North-East regions. Business park new supply is mainly in Punggol and Jurong.

We expect the industrial rental recovery to be two-tiered with high-spec and business park space to fare better due to the higher demand, lower supply and also from the spillover effect from a strong office rent recovery in 2018 and further office rental upside in 2019. As more than 80% of the total upcoming supply is factory space, most of it conventional factories, rents in this segment would likely remain under pressure.

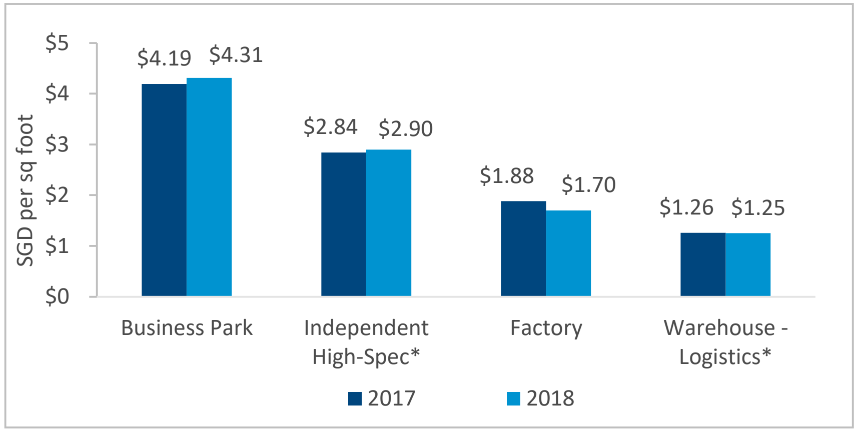
While we anticipate demand for logistics properties to improve in 2019, with e-commerce as one of the key drivers, the market will likely take a while to digest the large amount of supply completed in 2017-2018, which altogether (net) accounted for more than 11.3% of current logistics stock. While the warehouse vacancy rate has improved, it remained elevated at 10.5% at the end of 2018. With new logistics supply slowing in 2019 to around 2.1 million sq feet (196,000 sq metres, gross, equivalent to 1.8% of current logistics stock), we expect logistics rents to remain weak in H1 2019 before recovering 1-2% towards the end of 2019.

Bright spots in the industrial landscape

Following the completion of three data centres in Woodlands and Tuas areas during H2 2018, we expect more high-profile data centre projects in the pipeline to arrive in the coming years such as the ones built by Google, ST Telemedia Global, Equinix, OneAsia, Digital Realty and Facebook.

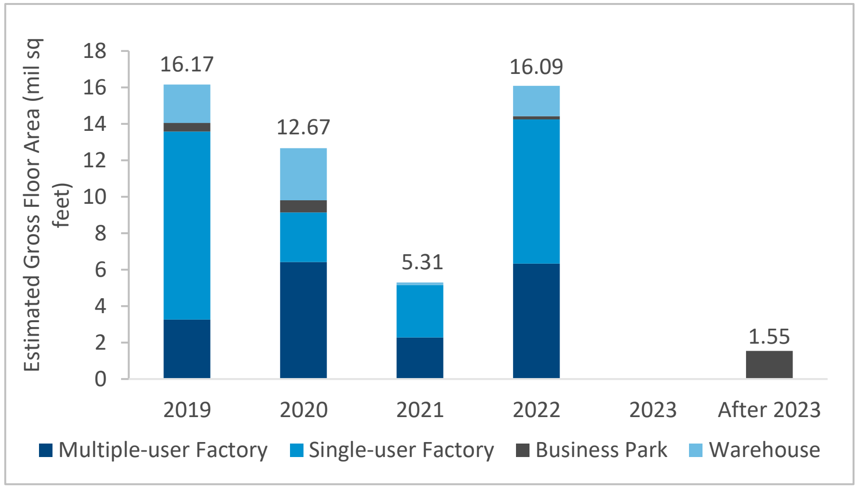
In January 2019, the British technology company Dyson said it would move its headquarters to Singapore, following an earlier announcement in October 2018 that it would build an electric car manufacturing plant here. We see these moves as a testament to Singapore's aspirations to move up the manufacturing value chain, with possible uplift spilling to other parts of the industrial property market.

Average monthly gross rents by types



Source: Colliers International
* Independent High-Specs refer to top quality modern industrial multi-level, multi-tenanted space that includes the latest or recent generation of building services, prestigious lobby finish and good views and/or outlook.
* Warehouse-Logistics rents refer to average of ramp-up and cargo lift warehouses.

Upcoming new supply by types



Source: Colliers International, JTC (as of 31 January 2019)

Robust supply for central kitchens in 2019

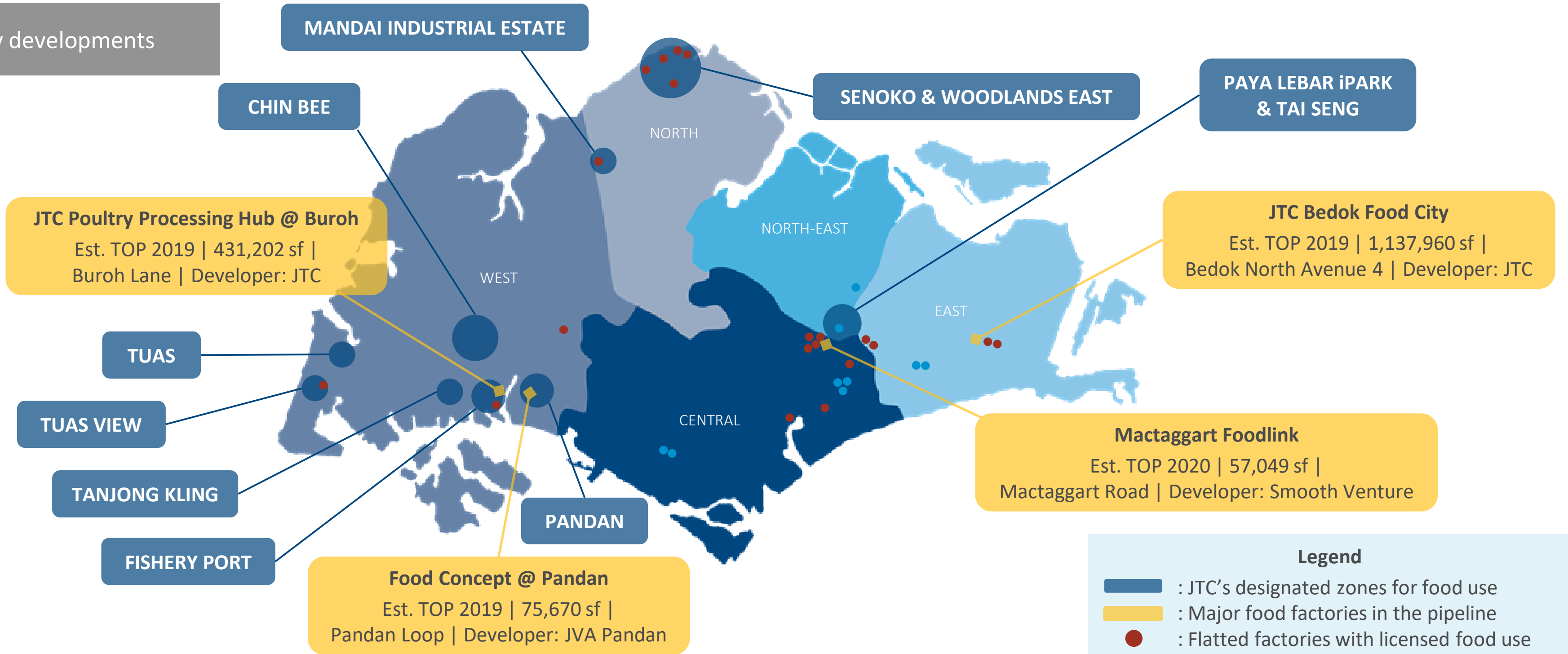
Central kitchens and food factories are dedicated facilities where food is stored, processed, cooked and packaged for delivery to food and beverage (F&B) establishments or retail customers. From April 2019, the Singapore Food Agency is planned to take over the licensing of all food-related works, including central kitchen applications, to focus on food safety and security. Based on data from Singapore Government agencies[1], we estimate the food industry accounted for around 10% of total manufacturing space. As of now, around 1,600 establishments are licensed by Agri-Food & Veterinary Authority of Singapore (AVA) for food production.

Food factories are typically located in JTC Food Zones and in close proximity to key food suppliers and manufacturers. Other major locations include MacPherson, Defu, Aljunied, Ubi, Bedok and Depot Lane.

Central kitchen rentals vary depending on location, building design and land tenure. Based on data from JTC, monthly rents per sq foot in established food zones range around SGD1.6-2.4 (USD1.2-1.8) in the West Region (Jalan Tepong, Pandan Loop) to SGD1.8-2.5 (USD1.3-1.8) in the North Region (Mandai Link, Senoko Avenue).

We expect demand for central kitchens in industrial properties to be driven by the rising popularity of food delivery services and e-commerce, the need of F&B operators to streamline their retail spaces, as well as the government's push for greater productivity and innovation in Singapore's food industry. Two upcoming food complexes developed by JTC, Bedok Food City and Poultry Processing Hub @ Buroh, are among the largest industrial projects in the pipeline for 2019. With robust supply coming on stream, we forecast rents and prices of central kitchens to remain largely stable over the next five years.

Selected food zones and factory developments



Source: Colliers International, JTC, AVA

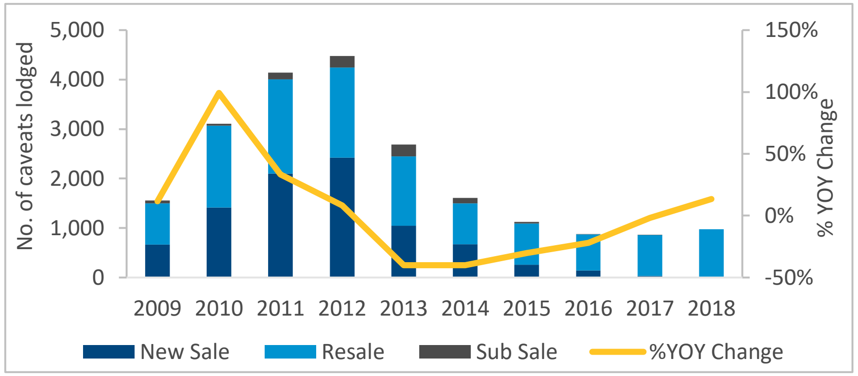
[1]Economic Development Board, Singapore Department of Statistics, AVA

Major industrial supply in 2018-2019

Property	Developer	Type	Total GFA Granted TOP ('000 sq feet)
Completed in 2018			
Mega@Woodlands	Wee Hur Development Pte Ltd	Multiple-user factory	1,053
Nordcom Two	Grow-Tech Properties Pte Ltd	Multiple-user factory	749
T-Space	Goldprime Land Pte Ltd	Multiple-user factory	737
Logos - Yang Kee Logistic Hub	Diamond Land Pte Ltd	Warehouse	703
In the supply pipeline for 2019			
JTC Bedok Food City	JTC Corporation	Multiple-user factory	1,138
trendspace	JTC Corporation	Multiple-user factory	660
30 Tuas Bay Drive	Syscon Pte Ltd	Single-user factory	524
JTC Poultry Processing Hub @ Buroh	JTC Corporation	Multiple-user factory	431

Source: Colliers International, JTC (as of 31 January 2019)

Transactions of strata-titled industrial units



Source: Colliers International, JTC (as of 31 January 2019)

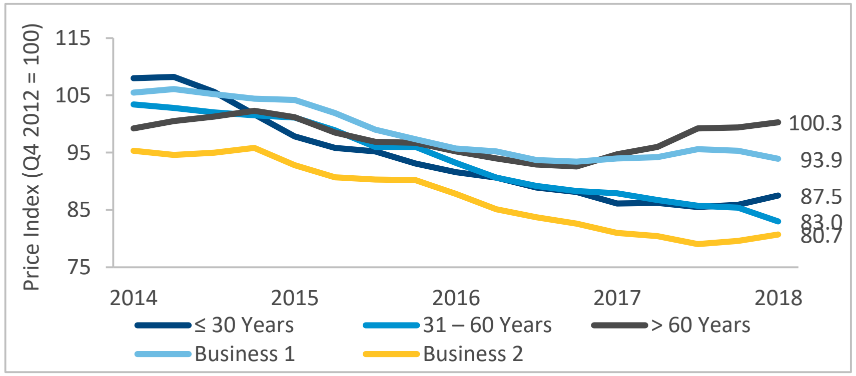
INVESTMENT MARKET AND CAPITAL VALUES

Based on records from JTC as of 31 January 2019, a total of 506 caveats for strata sales were lodged in H2 2018, up by 7.7% hoh and 7.9% yoy. This brings total strata-titled sale records in 2018 to 976, an increase of 13% yoy.

According to JTC, the price index of overall industrial spaces increased for the first time in 14 quarters in Q3 2018. It was flat in Q4 2018. Median prices for strata-titled units transacted in H2 2018 were SGD577 (USD423) for warehouse and SGD413 (USD302) for factories, largely stable hoh. According to Colliers International's Asia Cap Rate Report, net yields for industrial properties with shorter leasehold land tenure remained unchanged hoh at 5.5-6.5% in H2 2018.

As Singapore's industrial market bottoms, the attractive yields of industrial assets offer diversification and accretive returns to qualified investors. We expect capital values for prime industrial properties with freehold or long tenures to continue to lead the recovery.

Price index of multiple-user factory by land-use zoning and remaining tenure



Source: Colliers International, JTC (as of 31 January 2019)

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