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Meanwhile, the flight to quality trend should drive demand and support rents for new business park and high-spec factory space in the coming quarters.

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**Summary & Recommendations**

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Singapore’s industrial market remained soft...

Based on advanced estimates from the Ministry of Trade and Industry (MTI), Singapore economy grew by only 0.7% in 2019, the weakest growth in a decade. The latest COVID-19 outbreak is expected to take a toll on the economy. Oxford Economics, on 7 February 2020, downgraded Singapore’s 2020 GDP growth forecast by 0.4 ppt to 1.0%. In the near term, the manufacturing sector could be affected by the disruption to the global supply chain due to factory closures and cuts to transport links across China.

Based on Colliers’ data, as of end-2019, average monthly factory gross rent fell by 1.8% YOY to SGD1.67 (USD1.2) per sq foot. Average monthly gross rent of warehouse-logistics also slipped by 1.6% YOY to SGD1.23 (USD0.9) psf. In contrast, monthly business park rents increased by 1.4% YOY to SGD4.37 (USD3.2) psf on tight supply while independent high-spec industrial buildings saw monthly rents climbing 1.4% YOY to SGD2.94 (USD2.2) psf.

Based on data from JTC, the all-industrial vacancy increased by 0.1 ppt YOY to 10.8% in 2019 as supply outpaced demand. We forecast 2020 new supply to double YOY to 20.2 million sq feet (1.9 million sq metres, net). We expect supply to taper off in 2021 to around 6.9 million sq feet (642,000 sq metres, net) before picking up again in 2022 at 13.7 million sq feet (1.3 million sq metres, net). We estimate 76% of the 2020-2024 supply is factory space.

...with a two-tiered outlook

In general, we forecast continued two-tier performance between older lower-specifications and newer higher-specifications facilities. Centrally-located business parks and high-spec buildings with good amenities should continue to attract healthy demand while those older and further away from MRT stations or in suburban areas could face more pressure. Overall, we expect business park and high-spec rents to see slight upticks in the next quarters. Even within business parks, the performance is likely to be two-tier with the newer ones in the city fringe likely seeing healthier demand.

Industrial rents for multi-user factories and single-user factories would likely moderate amid the greater supply in 2020. Warehouse rent should remain soft in 2020-2021 amidst global trade uncertainties. Rent for warehouse-logistics space could pick up from 2022 as supply diminishes. Location and supporting infrastructure could also be differentiating factors for specialized industries such as food factories and data centres.
Capital values declined 0.3% in 2019

According to JTC, the price index of overall industrial space in H2 2019 decreased by 0.1% HOH and 0.3% YOY as the overall land lease tenures of industrial properties continued to decline amidst weak rents. Median prices per sq foot of strata-titled units transacted in H2 2019 were SGD394 (USD292) for factories, a 4.6% decline YOY, and SGD570 (USD423) for warehouses, -0.9% YOY.

We expect capital values of prime industrial properties with freehold or land tenures of 60 years and above to see marginal uptick in the next few years due to their scarcity. While we note the subdued interest for government’s industrial land sales in 2019, we anticipate stronger demand for high-spec industrial spaces in 2020. According to Colliers International’s Asia Cap Rate Report, net yields for industrial properties with short leaseholds of 30 years and below remained flat throughout 2019 at 5.75–6.25%. We expect this stable trend to hold over the next five years.

Source: Colliers International, JTC (as of 31 January 2020). Note: Business 1 (B1) zoning is intended for light and clean use. Business 2 (B2) zoning may be used for heavy industries that have a greater environmental impact.
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