Colliers Quarterly

SINGAPORE | INDUSTRIAL

Q2 2017

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Accelerating success.

Signs of bottoming

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Leasing and strata sales activities picked up in Q2, while prime rents and capital values remained relatively flat. Rents have lagged behind the upturn in manufacturing mainly due to the patchy growth across segments as well as the record supply completions in the near term. With a more broad-based growth going forward, we expect rents to bottom out by end of 2017, and to recover 1-3% in 2018, led by independent high-specifications buildings.

Forecast at a glance

Demand

We expect leasing activity to continue in H2 2017, as tenants exploit market conditions which still favour them to finalise their leasing arrangements.

Supply

H1 2017 added 2.3% to the total industrial stock. We expect a further 2.5% increase in H2, and supply to ease in 2018 and 2019.

Vacancy rate

JTC All-industrial vacancy was 11.3% (+0.7ppt QOQ) as of Q2 2017. We expect vacancy to increase in H2 2017 and to decline towards end-2018 as supply eases.

Rent

RENT

Rents were relatively flat in H1 2017. We expect them to fluctuate marginally in H2 and overall rents to recover 1-3% YOY in 2018, led by independent high-specification buildings.

Price (strata-titled capital values)

We expect capital values for prime freehold industrial space to remain stable on investment demand, and those for prime leasehold units to fall marginally due to ample supply.

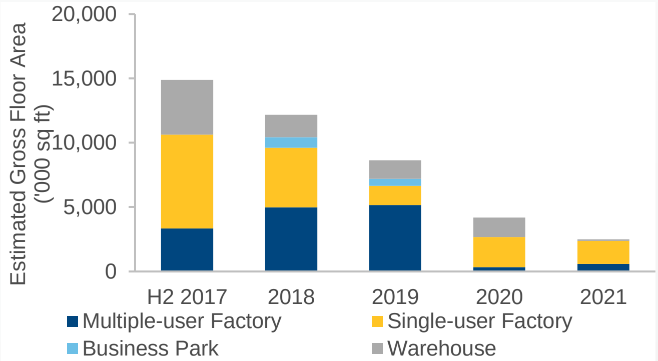
Record near term supply pipeline

Despite positive signs from the manufacturing sector in Singapore and an increase in leasing transactions, based on Colliers International's research industrial rents across most segments including prime factories, warehouses and independent high-specification spaces, were flat in Q2. Business park rents picked up marginally on gradual take up with no major completions in 2017.

According to Colliers International's research, the average monthly gross rents for ground prime conventional factory premises eased by 0.8% QOQ to SGD2.54 (USD1.84) per sq ft. The average monthly gross rents for the ground level of prime conventional warehouse space remained flat for the second consecutive quarter. In Q2, the monthly ground floor rents for independent high-specifications industrial space located outside science parks and business parks remained flat for the second consecutive quarter at SGD3.21 (USD2.33) per sq ft.

Colliers International's research further suggests that, in Q2, the overall capital values of prime freehold factory and warehouse units remained stable. We expect capital values for prime freehold industrial space to remain stable over 2017 as a whole, while overall capital values are likely to fall further, as more leasehold units are available in the market. According to JTC, 1,108 units totalling 2.6 million sq ft (0.24 million sq m) in uncompleted strata-titled developments are still available for sale as of end-June.

Upcoming Industrial Supply by Types, as of Q2 2017



Source: JTC

Leasing market and rental values

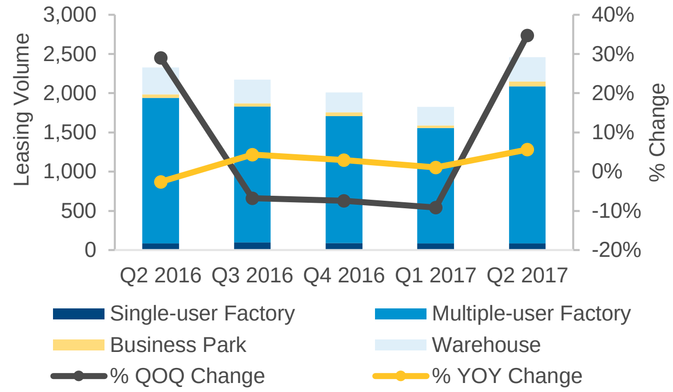
Increased leasing transactions

As of 19 July 2017, a total of 2,461 leasing records were registered in Q2 2017 by Urban Redevelopment Authority's Real Estate Information System (URA REALIS). This represents a 34.8% QOQ improvement, after three consecutive declining quarters and a 5.5% YOY growth.

All segments across the industrial sector saw an overall improvement in leasing volume for Q2. Business Parks saw the highest jump at 85.0% QOQ from 32 to 60 records in Q2.

This can be attributed to industrialists committing to leases after month of negotiations prior to Q2 as a result of better performing manufacturing economic indicators since Q4 2016.

Breakdown of Leasing Records by Types



Source: Colliers International Singapore Research, URA REALIS (as at 19 July 2017)

This brought H1 2017 total leasing records to 4,287, up a modest 3.7% YOY. We note that although there has been a recovery in leasing transactions, it has lagged behind the more pronounced recovery in manufacturing from Q4 2016 due to uneven growth. Not all manufacturing clusters are enjoying output growth. In particular, general manufacturing is still contracting. Some industrialists are still cautious; we think that decisions on business expansions from select industries such as general manufacturing could be pushed back until more broad-based improvements are seen. We estimate total leasing volume for 2017 as a whole to be in the range of 8,300 to 8,500, implying 2.2% YOY growth.

Uneven growth in manufacturing sector; record supply in 2017

According to the Ministry of Trade and Industry (MTI), Q2 2017's advance GDP estimates released on 14 July, on a seasonally adjusted annualised basis, the manufacturing goods producing industries expanded 2.4% QOQ, extending its growth from 0.4% QOQ in Q1 2017. This growth was largely driven by strong external demand for semiconductors and semiconductors manufacturing equipment from the electronics and precision engineering clusters, respectively.

Meanwhile, Singapore's manufacturing output increased 13.1% YOY and 9.7% seasonally-adjusted MOM in June 2017. All clusters except general manufacturing posted output expansions. General manufacturing output contracted 5.3% YOY. The electronics cluster led with a 25.5% YOY expansion, attributed to output growth in the semiconductors segment but partially offset by declines in infocomms & consumer electronics and data storage.

Singapore's non-oil domestic exports (NODX) grew 8.2% YOY in June with Chemicals (+18% YOY) and Electronics (+5.4% YOY) registering expansions, but Pharmaceuticals falling 34.2%YOY.

In the near term, we expect the continued supply of competing industrial space to exert pressure on occupancy rates and rents.

Based on JTC's Q2 2017's data, all-industrial vacancy rate rose 0.7 percentage points (ppt) to 11.3%. About 11.3 million sq ft net lettable area (NLA) has been completed in H1 2017, with a further 14.9 million sq ft gross floor area (GFA) of industrial supply slated for completion in H2 2017. Another 12.2 million sq ft GFA will be completed in 2018. As a comparison, the average annual demand and supply of industrial space in the past three years were around 14 and 19 million sq ft (NLA) respectively.

Relatively stable rents in Q2

Based on Colliers International's research, in Q2 2017, mixed rental performance continued for the second consecutive quarter. However, on an overall basis, rents remained relatively stable.

According to Colliers International's research, the average monthly gross rents for ground prime conventional factory premises eased by 0.8% QOQ to SGD2.54 (USD1.84) per sq ft. Although ground floor units tend to be rarer and deemed more prime, strata owners are facing competition with ramp-up space. We believe the dip could be due to strata owners accepting lower rents in anticipation of the increased supply of ramp-up space and thus competition for suitable tenants.

In contrast to ground floor rents, the average rent for upper floors continued to move up for the third quarter by 0.5% QOQ to SGD1.85 (USD1.34) per sq ft, as strong take-up continued for tenants who require prime locations for their operations.

The average monthly gross rents for the ground level of prime conventional warehouse space remained flat for the second consecutive quarter, while average rent at upper levels grew a marginal 0.6% QOQ in Q2 2017.

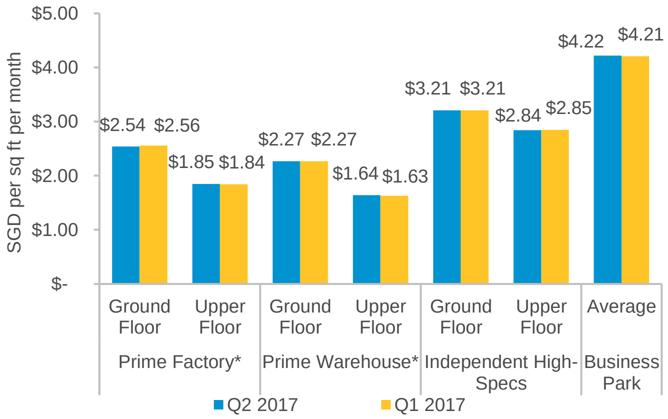
In Q2, the monthly ground floor rents for independent high-specifications industrial space located outside science parks and business parks remained flat for the second consecutive quarter at SGD3.21 (USD2.33) per sq ft. However, upper floor rents dipped by 0.4% QOQ from SGD2.85 (USD2.07) per sq ft in Q1 to SGD2.84 (USD2.06) per sq ft in Q2. This could be due to lower rents fetched by older high-specifications buildings. The older high-specifications buildings are experiencing higher vacancy, as tenants took advantage of the weaker rents to move to newer buildings that are located near MRT stations.

Nonetheless, we expect demand for independent high-specifications industrial space to remain strong, as some industries are growing their research and development (R&D) capabilities or setting up technical centres and could be taking up such industrial spaces in Singapore. They typically need manufacturing space, hence their preference for occcupying high-specifications spaces instead of business parks. For instance, it was reported that Konica Minolta Business Solutions Asia recently set up their customer engagement centre in Techlink, at Kaki Bukit Road 3 to grow its regional industrial printing business. The centre allows customers, particularly small, medium-sized enterprises (SMEs) to test out their innovative and high value printing services.

Meanwhile, we should also expect potential demand from companies who are relocating from the old JTC flatted factories at Ayer Rajah Crescent. For example, according to Colliers International, Sivantos Group, a hearing aid manufacturer will be relocating from its current location at Ayer Rajah Crescent to take up about 150,000 sq ft (13,940 sq m) in 18 Tai Seng. Companies which are relocating could take this opportunity to consolidate their operations in the new premises.

Based on Colliers International's research, business park rents edged up by 0.2% QOQ to an average monthly gross rent of SGD4.22 (USD3.06) per sq ft in Q2 2017, in tandem with the increase in leasing transactions during the quarter. We observed that some tenants are taking up smaller spaces or short-term leases (i.e. one-year lease) in business parks.

Average Monthly Gross Rents of Prime Industrial Space (Q2 2017 vs Q1 2017)



* This refers to prime conventional factory or warehouse space.
Source: Colliers International Singapore Research

Increasing start-up spaces

Given the continual drive by the government to encourage and facilitate start-ups in tech entrepreneurship, more alternatives for start-up and collaborative spaces are being made available. This is especially so for entrepreneurs in the research and development or advanced technologies fields who wish to utilise incubator or start-up spaces located close to research institutions or similar business communities.

Other than the existing JTC LaunchPad @ one-north and the new JTC LaunchPad @ Jurong Innovation District that offer start-up and incubator spaces, URWork, one of China's most prominent coworking operators partnered with CapitaLand and Collective Campus, an Australian accelerator and innovation consultancy, set up their first coworking branch out of China in LaunchPad @ one-north. The shared workspace platform could provide business and collaboration opportunities for Singaporean and Chinese entrepreneurs who are keen on exploring overseas markets by exploiting on URWork's network.

Additionally, in partnership with Ascendas-Singbridge, Spacemob set up its second branch at Ascent in Singapore Science Park earlier this year. The new 14,000 sq ft (1,300 sq m) coworking platform allows its business community to tap on existing resources in the nearby research institutions, technology partners and other start-up communities.

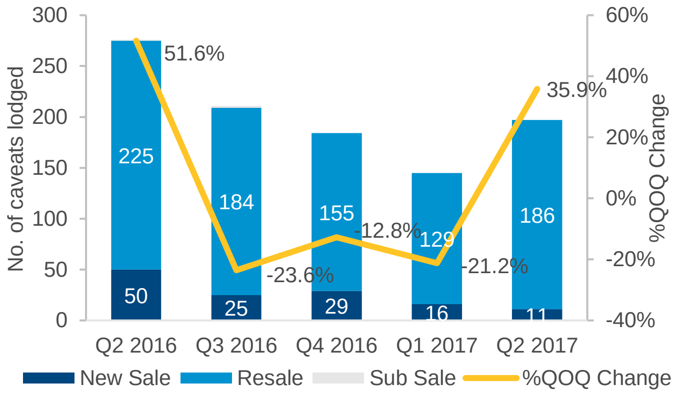
Strata sales and capital values

Uptick in strata sales volume in Q2

Based on preliminary records from URA REALIS as of 19 July 2017, a total of 197 caveats were lodged for Q2 2017. This is up 35.9% QOQ, but down 28.6% YOY which could be due to the lack of new launches compared to last year.

The sequential growth could be due to seasonal factors as Q1 is traditionally slow due to the Chinese New Year festivities. Similar to the leasing market, some enquiries in the preceding quarter may have translated to actual transactions in Q2, as developers continued to market their unsold units aggressively. Including Q1, the strata sales market recorded 342 caveats in H1 2017, a further 25.3% YOY decline.

Transactions of strata-titled industrial units



Source: Colliers International Singapore Research, URA REALIS (as at 19 July 2017)

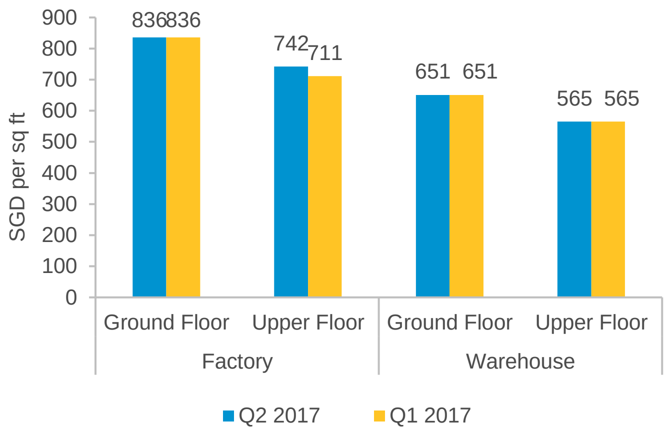
Stable capital values for prime freehold units in Q2

Based on Colliers International's research, in Q2, the overall capital values of prime freehold factory and warehouse units remained flat except for upper floor factory units which increased 4.4% QOQ to SGD742 per sq ft (USD538 per sq ft). This could be due to the higher demand for prime freehold units by end-users.

We expect capital values for prime freehold industrial space to remain stable in 2017, while overall capital values are likely to fall further, as more leasehold units are made available in the market. Based on JTC Q2 2017's data, there were 1,108 unsold units (or 2% of total multiple-user factory stock) from uncompleted strata-titled developments as of end-June.

We advise end-users, especially those who prefer to own their operating premises, to take this opportune time to source for suitable units in the current market.

Average Capital Values of Prime Freehold Industrial Space (Q2 2017 vs Q1 2017)



Source: Colliers International Singapore Research

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