Colliers Quarterly

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Accelerating success.

Ample supply

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Robust manufacturing growth has not yet translated into sustained rental improvement in the Singapore industrial market, due to the oversupply. Rents in the different industrial segments were mixed in Q3 2017 as overall occupancy continued to decline despite an improvement in demand. Supply should ease after 2018 which is when we expect to see rents stabilise and post modest growth. Older, generic space will probably continue to struggle, while new high-specification industrial space ought to lead demand.

Forecast at a glance

Demand

We expect stronger leasing demand in tandem with the growth in manufacturing GDP and export volumes.

Supply

We expect a further 24.8 million sq ft or 5% of current stock coming on-stream from Q4 2017 to end-2018. Supply is expected to ease from 2019.

Vacancy rate

JTC All-industrial vacancy was 11.4% (+0.1ppt QOQ) as of Q3 2017. We expect vacancy to increase in 2017, due to the completion of a record high new supply by end-2017, and to decline towards end-2018 as supply eases.

Rent

We expect rents to moderate into 2018 and overall rents to recover 1-3% p.a. in 2019-2021F as supply eases.

Price (strata-titled capital values)

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

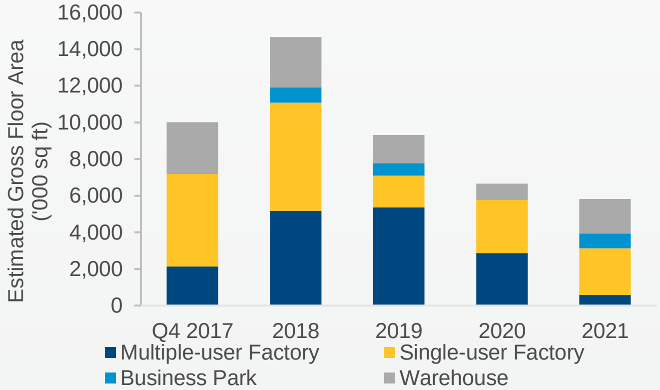
Mixed sentiment

While the manufacturing sector drove the higher-than-expected GDP growth in Q3 2017, it has not led to a broad-based improvement in the industrial property market. According to JTC, All-industrial price and rental indices fell by 0.9% and 1.1% QOQ respectively as vacancy rose 0.1 percentage point (ppt) QOQ to 11.4%. Despite improved demand, there is ample supply in the market for the end-users. With more supply coming on-stream (5% of current stock) by 2018, we expect prices and rents to stabilise towards 2019. JTC's All-industrial prices and rents indices have declined 15.4% and 13.3% since their respective peaks.

Overall leasing activity jumped 12.7% YOY in Q3 on improvements across all segments - warehouse, single-user factory, multi-user factory and business parks. In particular, business park leasing transactions doubled YOY, driven by relocations and flight to quality. While improved, overall business park occupancy was still relatively weak at 85.9%.

Based on Colliers International's research, in Q3, industrial rents for prime conventional factory continued to improve marginally QOQ, while independent high-specification space and prime warehouses remained unchanged. Business park rents bucked the uptrend in Q3, showing a 0.9% QOQ dip in rents, as newer buildings in more accessible locations filled up gradually and landlords of older buildings reduced their rents to attract tenants.

Upcoming Industrial Supply by Types, as of Q3 2017



Source: Colliers International Singapore Research, JTC

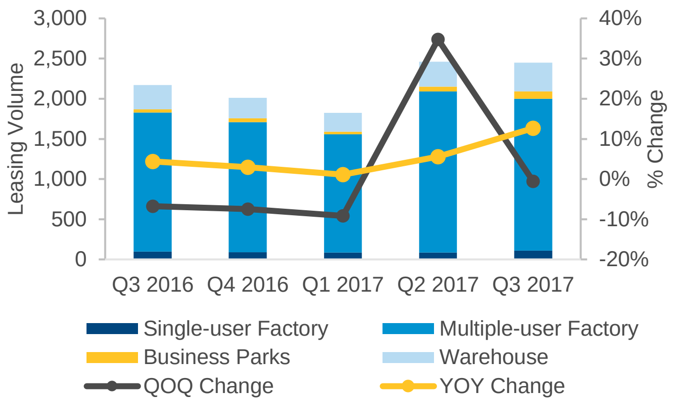
Leasing market and rental values

Leasing volumes jumped YOY

As of 17 October 2017, a total of 2,447 leasing records were registered in Q3 2017 by Urban Redevelopment Authority's Real Estate Information System (URA REALIS). While this was a 0.6% decline QOQ fall, it was a 12.7% jump YOY, led by the business park segment which more than doubled to 89 leasing records.

According to Colliers International, we note that the business park leasing activities are mainly relocations and flight to quality. We observed that one-north has enjoyed high demand, with some buildings near full occupancy, while older business park buildings in International Business Park continue to register high vacancy rates of 20-60%. As of Q3 2017, the estimated occupancy rate for postal sector 13, where one-north is located stands at 94.0%. According to JTC, island-wide business park occupancy improved 0.2ppt QOQ and 4.8ppt YOY to 85.9%.

Breakdown of Leasing Records by Types



Source: Colliers International Singapore Research, URA REALIS (as at 17 October 2017)

The total leasing records in the first nine months of 2017 increased 6.8% YOY to 6,734 records, on increases across warehouse, multi-user factory and business park segments, reflecting the improvement of the manufacturing sector. We estimate the total leasing volume for FY2017 to be in the range of 8,800 to 9,000, representing a 6-8% YOY growth.

Robust manufacturing performance

According to the advance estimates from Ministry of Trade and Industry (MTI), the Singapore economy grew 4.6% YOY in the Q3 2017, higher than the 2.9% growth in the previous quarter. On a quarter-on-quarter seasonally-adjusted annualised basis, the economy expanded 6.3%, an improvement from the 2.4% growth in the second quarter. The better-than-expected growth has been driven primarily by manufacturing which grew 15.5% YOY and 23.1% QOQ on robust output expansions in electronics, biomedical manufacturing and precision engineering amid a cyclical recovery in global trade.

Meanwhile, based on the Singapore's Purchasing Manager Index (PMI), the manufacturing sector enjoyed 13 months of consecutive expansion, reflecting a sustained growth for the sector since August 2016.

New centre openings in Q3

Companies continued to set up bases or open new centres in Q3. In September 2017, Soitec, a world leader in designing and manufacturing innovative semiconductor materials for the electronics industry launched its pilot line to produce fully depleted silicon-on-insulator (FD-SOI) wafers in its Singapore wafer fab plant[1]. The company plans to invest USD270 million over the next several years to bring the Singapore plant to full capacity. This was announced after Soitec and GLOBALFOUNDRIES, a leading full-service semiconductor foundry, entered into a five-year supply agreement to ensure the volume supply of FD-SOI wafers[2].

Firmenich, the world's largest privately-owned fragrance and flavour company, opened its Global Perfumery Creative Centre in Science Park, offering capabilities from perfume creation to technology innovation, and has laboratories and departments delivering consumer insights.

In July, Kurita Water Industries Ltd established Kurita R&D Asia Pte Ltd located at Clean Tech Park to focus on developing technologies for desalination and the recycling of wastewater.

Rents remained relatively flat

Despite the positive macroeconomic backdrop, based on Colliers International's research, average monthly gross rents across the industrial segments were largely flat

[1] EDB: Soitec Launches FD-SOI Pilot Line in Singapore (20 September 2017)

[2] Soitec Press Release: GLOBALFOUNDRIES and Soitec Enter Into Long-term Supply Agreement on FD-SOI Wafers (19 September 2017)

QOQ. We believe this is due to the large supply that has come on the market

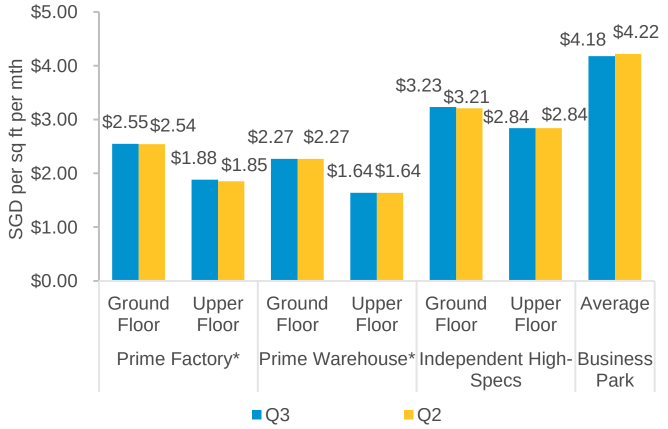
According to Colliers International's research, the average monthly gross rents for ground floor prime conventional factory premises rebounded by 0.4% QOQ to SGD2.55 (USD1.88) per sq ft. Meanwhile, upper floor rents grew 1.6% QOQ to SGD1.88 (USD1.38) per sq ft, due to strong take-up for tenants who are location-sensitive.

The average monthly gross rents for both ground and upper floors of prime conventional warehouse space remained stable at SGD2.27 and SGD1.64 per sq ft, respectively in Q3.

Based on Colliers International’s research, business park rents slipped 0.9% QOQ to an average monthly gross rent of SGD4.18 (USD3.07) per sq ft in Q3, despite an increase in leasing transactions recorded during the quarter. The fall could be due to tenants gravitating towards newer business park buildings with better specifications and in more accessible locations. As such, landlords of older buildings have lowered their rents slightly, in a bid to attract tenants to take up the vacant spaces.

In Q3, the monthly ground floor rents for independent high-specifications industrial space located outside of science parks and business parks edged up by 0.6% QOQ to SGD3.23 (USD2.38) per sq ft. However, upper floor rents remained flat at SGD2.84 (USD2.09) per sq ft.

Average Monthly Gross Rents of Prime Industrial Space (Q3 2017 vs Q2 2017)



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

We expect firm demand to continue for high-specification spaces as industrialists adopt a changing business model while adopting more innovative solutions. As such, high-specification spaces could cater to their needs. Additionally, some of these independent high-specification industrial developments provide added convenience by either offering lifestyle amenities, or through being located close to ready amenities such as retail facilities.

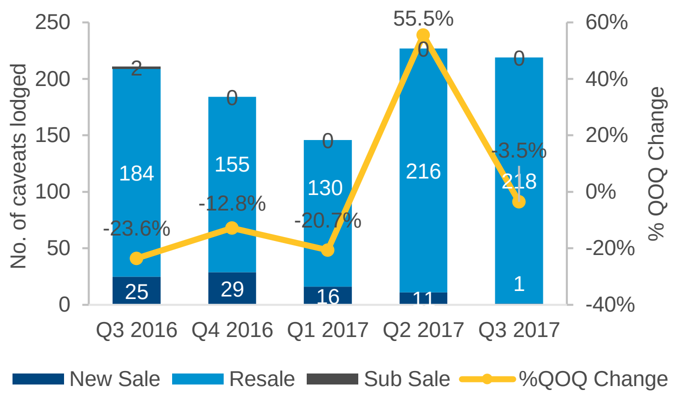
Strata sales and capital values

Strata sales remained weak

Based on preliminary records from URA REALIS as of 17 October 2017, a total of 219 caveats were lodged in Q3, down by 3.5% QOQ. However, the total strata sales volume inched up 3.8% YOY, a reversal from the declining trend since Q4 2012.

Nonetheless, strata sales for the first nine months amounted to 592 caveats, down 11.5% YOY. We do not expect a sudden surge in strata sales volume in Q4, as we think industrialists could delay their buying decisions to fulfil their year-end orders. Hence, we estimate that the total strata sales volume for FY2017 will decline 10% to 768.

Transactions of strata-titled industrial units



Source: Colliers International Singapore Research, URA REALIS (as at 17 October 2017)

Capital values for prime freehold units holding firm

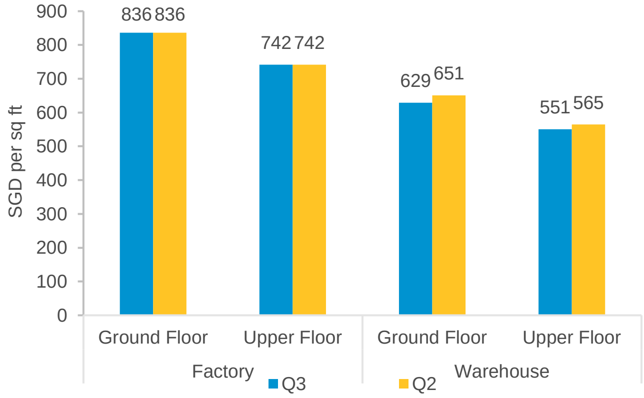
Based on Colliers International's research, in Q3, the overall capital values of prime freehold factory units continued to hold firm for both ground and upper floors.

However, average capital values for prime freehold warehouses dropped slightly in Q3. The capital values for prime ground floor and upper floor units fell 3.4% QOQ and 2.5% QOQ to SGD629 (USD463) per sq ft and SGD551 (USD405) per sq ft, respectively.

We project that capital values for prime freehold industrial space will fluctuate marginally for FY2017, as demand for prime freehold units could remain strong among buyers who prefer freehold units for better investment value in the long-run.

Meanwhile, capital values for leasehold industrial properties are likely to remain weak, in line with the weak occupancy and rents. According to JTC, as of end of Q3 2017, there were 992 units, totalling 215,000 sq m (2.3 million sq ft) in uncompleted strata-titled developments still available for sale.

Average Capital Values of Prime Freehold Industrial Space (Q3 2017 vs Q2 2017)



Source: Colliers International Singapore Research

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