Colliers Quarterly

SINGAPORE | INDUSTRIAL

Q4 2017

8 February 2018

Accelerating success.

Bottoming out

Tricia Song Director and Head | Research

Industrial rents showed signs of bottoming out as the rate of decline was the slowest in 11 quarters. Overall occupancy improved 0.3ppt QOQ despite the bumper supply completions. A rosier global economy and better growth forecast for Singapore this year, should help to lift business sentiment and encourage industrialists to consider expanding their operations. We expect rents to stabilise in 2018 and to post modest gains beyond that as new supply tapers in coming years. New high-specifications and business park industrial space ought to continue 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 17.5 million sq ft (gross) or 3% of current stock coming on-stream in 2018. Supply is expected to ease by half to 7.6 million sq ft in 2019.

Vacancy rate

JTC All-industrial vacancy was 11.1% (-0.3ppt QOQ, +0.6ppt YOY) as of Q4 2017. We expect vacancy to decrease over 2018-2020 as supply eases

Rent

We expect rents to stabilise in 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 scarcity, and those for short-leasehold units to moderate due to ample supply and depreciation.

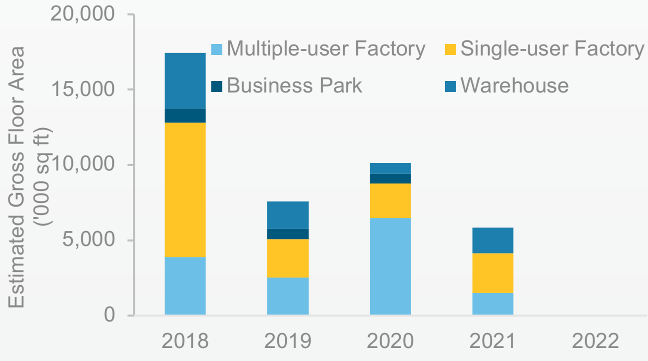
Improved occupancy

While the manufacturing sector drove the higher-than-expected GDP growth since Q4 2016 and through 2017, it has not led to a broad-based improvement in the industrial property market in 2017. This was due mainly to a record new supply of 20.89 million sq ft (net lettable area) of industrial space completed in 2017. However, there are now signs of a bottoming. According to JTC, the All-industrial rental price index fell by 0.1%, the slowest since it started declining in Q2 2015. Despite bumper supply completions, occupancy improved 0.3 percentage point (ppt) QOQ to 88.9% in Q4 2017. With tapering supply coming on-stream in 2018-2021F, we expect average prices and rents to stabilise towards 2019. JTC's All-industrial prices and rents indices have declined 16.6% and 13.4% since their respective peaks.

Overall leasing activity jumped 19.7% YOY in Q4 on double-digit growth across all segments - warehouse, single-user factory, multi-user factory and business parks. The total leasing records in 2017 increased 9.9% YOY to 9,140 records, mainly on 48%, 9.6% and 9.1% increases in the business park, multiple-user factory and warehouse segments respectively.

Based on Colliers International's research, rents for independent high-specifications space were flat as new supply were completed while business park rents rose 0.3% QOQ, as occupiers continue to gravitate towards newer developments amidst limited supply pipeline.

Upcoming Industrial Supply by Types, as of Q4 2017



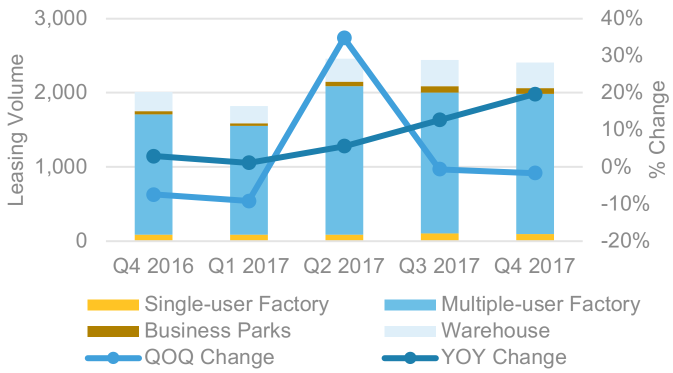
Source: Colliers International Singapore Research, JTC

Leasing market and rental values

Leasing volumes jumped YOY

As of 17 January 2018, a total of 2,406 leasing records were registered in Q4 2017 by Urban Redevelopment Authority's Real Estate Information System (URA REALIS). While this was a marginal 1.7% decline QOQ, it was a 19.7% jump YOY, driven by double-digit growth across all segments - warehouse, single-user factory, multi-user factory and business parks.

Breakdown of Leasing Records by Types



Source: Colliers International Singapore Research, URA REALIS (as at 17 January 2018)

The total leasing records in 2017 increased 9.9% YOY to 9,140 records, mainly on 48%, 9.6% and 9.1% increases in the business park, multiple-user factory and warehouse segments respectively. Leasing records for the single-user factory segment were flat YOY.

According to Colliers International, through 2017, we note that the business park leasing activities are mainly relocations and flight to quality. As of Q4 2017, we observed that one-north has enjoyed high occupancy of 94.1% while older business park buildings in International Business Park registered average occupancy rates of 78.1%. Changi Business Park also experienced high occupancy of 91.2%. According to JTC, island-wide business park occupancy improved 0.7ppt QOQ and 3.6ppt YOY to 86.6%.

Given the expected moderation in growth in the manufacturing sector in 2018, we estimate the total leasing volume for FY2018 to be in the range of 9,400 to 9,700, representing a 3-5% YOY growth.

Strong manufacturing growth in 2017, pace to moderate in 2018

According to the advance estimates from Ministry of Trade and Industry (MTI), the Singapore economy grew 3.1% YOY in the Q4 2017, slower than the 5.4% growth in the previous quarter. This brings full year 2017 GDP growth to 3.5%, the best showing since 2014's 3.6%. 2017's growth has been driven mainly by manufacturing which grew 10.5%, on robust output expansions in the electronics and precision engineering clusters. In 2018, economists expect the manufacturing momentum to moderate, while the overall GDP growth should remain firm as the recovery broadens beyond manufacturing.

Meanwhile, the Singapore manufacturing Purchasing Manager Index (PMI) recorded its 16th month of consecutive expansion in December 2017, reflecting a sustained growth for the sector since August 2016. However, the pace of expansion slowed as new orders and new exports for the electronics sector eased.

Upgrading to stay competitive

New facility openings in Q4 highlighted companies across different industries leveraging on technology to improve productivity. American technology and engineering giant Emerson opened a new solutions centre for customers at the regional headquarters of its automation solutions business in Singapore. Launched on 17 November 2017, the SGD4.1 (USD3) million facility in Pandan Crescent comes as part of the firm's drive to make Singapore a hub for the delivery of Internet of Things (IoT) technologies and services for its customers across the Asia-Pacific.

The facility - the largest of Emerson's solutions centre in Asia - features collaboration spaces that leverage multimedia technology, including augmented reality and virtual reality, and allow customers to get an immersive experience using Emerson's technologies to operate and maintain the "digital plant of the future".

In December, heritage brand Swee Heng Bakery officially opened its 6,000 sqm state-of-the-art factory at Senoko Avenue, which houses a central kitchen as well as a research and development (R&D) division. With its new facility at Senoko, it has the capacity to produce 30,000 cakes and 120,000 bread dough daily - three times its former capacity when the bakery was operating out of two smaller central kitchens. The new factory is equipped with state-of-the-art technologies such as a cold chain delivery dock that is part of the process of keeping cakes and produce fresh during delivery to the outlets island-wide.

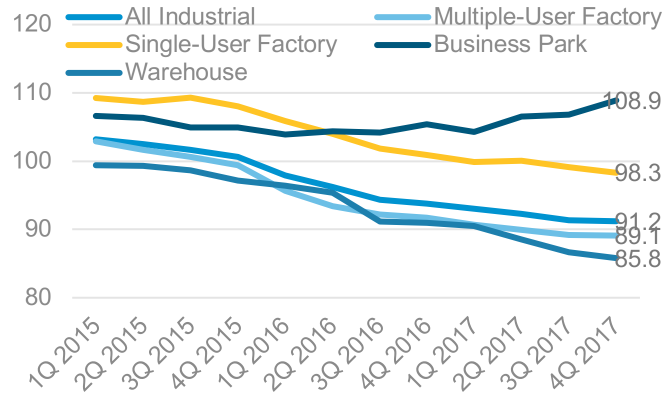
In November, precision manufacturer Beyonics moved into its new 230,000 sqft headquarters in Marsiling, which will replace four separate sites in a new integrated facility for advanced manufacturing and engineering. It offers a one-stop shop for design and manufacturing which reduces supply chain costs, speeds up delivery and increases productivity. Drawing on robotics, automated guided vehicles and other forms of digitalisation could cut cycle time by 30%.

Rents and occupancy bottoming

According to the Q4 2017 statistics released by JTC, industrial rents fell for the 11th consecutive quarter, but the rate of decline was the slowest, at just 0.1% quarter-on-quarter (QOQ). This brings the All-Industrial Rental Index to 13.4% below the peak in Q2 2014.

In particular, business park space rents have increased for the third consecutive quarter, by 2.0% QOQ and ending the year with an annual 3.3% increase. This is due to the limited new business park supply and increased demand for high-specs space. Rents for warehouse space continued to decline the most among the segments for the 3rd consecutive quarter, by 1.0% QOQ and 5.7% year-on-year, due to the large supply of 10.4 million sq ft of warehouse space that came on-stream in 2017.

Rental Index of Industrial Properties (Q1 2015 - Q4 2017)



Source: Colliers International Singapore Research, JTC

While the economic outlook for Asia is improving alongside the firming in global growth, the Singapore warehouse market continues to face pressure from a high supply of warehouse space.

A record new supply of 20.89 million sq ft (net lettable area) of industrial space came on-stream in 2017, with another 17.45 million sq ft (gross) set to be completed this year, after which supply will ease further.

Prices and rents may start to stabilise in tandem with occupancy rates. Already, overall occupancy rebounded by 0.3% points QOQ to 88.9%, led mainly by warehouse which improved 1.6% points QOQ to 89.1%.

A rosier global economy and better growth forecast for Singapore this year, should help to lift business sentiment and encourage industrialists to consider expanding their operations.

Based on Colliers International's basket of properties, business park rents rose 0.3% QOQ to an average monthly gross rent of SGD4.19 (USD3.17) per sq ft in Q4, coupled with an increase in leasing transactions recorded during the quarter.

In Q4, the monthly ground floor rents for independent high-specifications industrial space located outside of science parks and business parks dipped slightly by 0.3% QOQ to SGD3.22 (USD2.46) per sq ft as more supply was completed. However, upper floor rents remained flat at SGD2.84 (USD2.17) per sq ft.

We expect firm demand for high-specifications spaces as industrialists adopt a changing business model while adopting more innovative solutions. As such, high-specifications spaces could better cater to their needs. In addition, some of these independent high-specifications industrial developments offer lifestyle amenities such as a swimming pool, gym or childcare centre within the development.

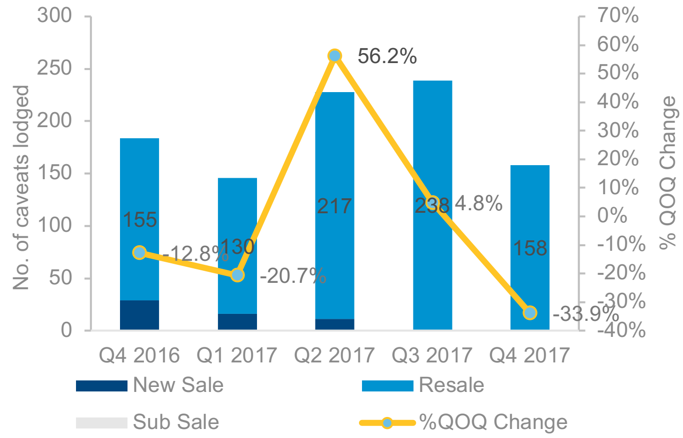
Strata sales and capital values

Strata sales remained weak

Based on preliminary records from URA REALIS as of 17 January 2018, a total of 158 caveats were lodged in Q4, down by 33.9% QOQ and 14.1% YOY.

This brings the total strata sales for 2017 to 771 caveats, down 9.6% YOY and the lowest since 2006. With weak rents and the effect of Total Debt Servicing Ratio (TDSR) weighing on investors, we expect volumes to remain soft in 2018.

Transactions of strata-titled industrial units



Source: Colliers International Singapore Research, URA REALIS (as at 17 January 2018)

Capital values for prime freehold improved amidst scarcity

Prices of industrial space continued to decline in Q4 2017. Prices of overall industrial space, multiple-user factory space and single-user factory space fell by 0.6% to 1.9%. For multiple-user factory space, prices in the North region and West region decreased by 0.8% and 2.0% QOQ respectively. The price indices of Central region and other regions increased by 0.6% and 0.3% respectively.

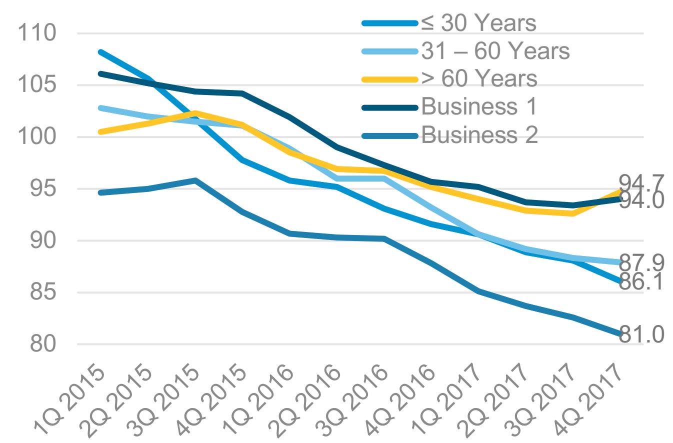
Based on land-use zoning, the price index of Business 1 (B1) multiple-use factory space increased by 0.6% while the price index of Business 2 (B2) multiple-user factory space fell by 1.9% during the same period.

Compared to the previous quarter, the price indices of multiple-user factory space with tenure of 30 years and below and tenure of 31-60 years fell by 2.3% and 0.5% respectively while the price index of tenure more than 60 years remaining increased by 2.3%.

We project that capital values for prime freehold industrial space could continue to firm up into 2018, as demand for industrial assets increases with business activities amidst scarcity of centrally-located and freehold industrial space.

Meanwhile, capital values for short-leasehold industrial properties, in particular those in the North and West regions, could remain soft given the near term high supply completions and continued total debt servicing ratio (TDSR) restrictions. However, this situation should improve by 2019 as the supply pipeline eases. For strata-titled investments, according to JTC, as of end of Q4 2017, there were 900 units, totalling 219,000 sq m (2.4 million sq ft) in uncompleted strata-titled developments still available for sale.

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



Source: JTC, Colliers International Singapore Research

For more information:

Tricia Song
Director and Head Research
tricia.song@colliers.com

Govinda Singh
Executive Director
Consulting, Valuation & Advisory Services
govinda.singh@colliers.com

Colliers International | Singapore
Raffles Place, #45-00
One Raffles Place
Singapore 048616
Tel: +65 6223 2323
Fax: +65 6222 4901
RCB No. : 198901352R
CEA Licence No: L3004691J