Singapore – August 2022

MARKET IN MINUTES
Savills Research

Industrial

Rents increased across the board in Q2

Positive momentum for modern industrial facilities expected to continue.

- Leasing volume in Q2/2022 fell 10.4% year-on-year (YoY) to 3,028 transactions.
- Savills' average monthly rent for prime multiple-user factories, and warehouse and logistics properties increased by 5.2% quarter-on-quarter (QoQ) to S$2.00 per sq ft and 1.4% QoQ to S$1.47 per sq ft in Q2/2022.
- Strata industrial sales activity increased 28.0% QoQ to 512 transactions in Q2/2022.
- Savills' basket of industrial properties showed that prices for 30-year leasehold industrial properties remained flat at S$305 per sq ft in Q2/2022.
- From Savills' basket of industrial properties, 60-year leasehold units increased by 2.4% QoQ to S$457 per sq ft while that of freehold properties rose by 2.8% QoQ to S$749 per sq ft in Q2/2022.
- Savills' prime business park monthly rents continued rising in Q2, increasing by 0.7% QoQ to S$5.93 per sq ft. Savills' standard business park properties monthly rents also increased by 0.7% QoQ to S$4.03 per sq ft.
- The average monthly rent for Savills' high-specs industrial basket increased by 1.1% QoQ to S$3.61 per sq ft in Q2/2022.
- We are revising out full year increase for prime multiple-user factories from 0% to 2% to 10% to 12%. Even if the economy were to slow, the prospect of domestic pump priming activities may embolden Small-to-Medium Enterprises (SMEs) to take on greater space. For warehouse & logistics properties, we maintain our forecast of a 2% to 5% rise.

> "The possibility of domestic pump priming being activated if the external economy slows may create greater demand for prime multiple-industrial space for tenants to take in new work orders."
>
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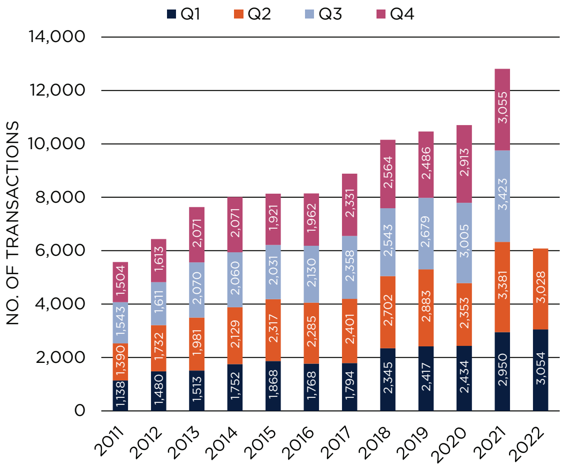
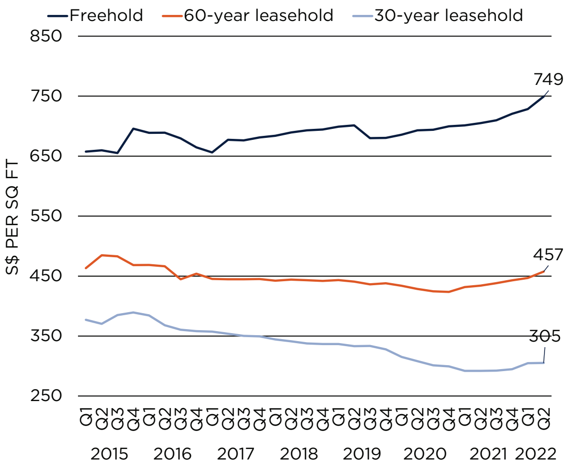
GRAPH 1: Factory and Warehouse Leasing Volumes, 2011 to Q2/2022



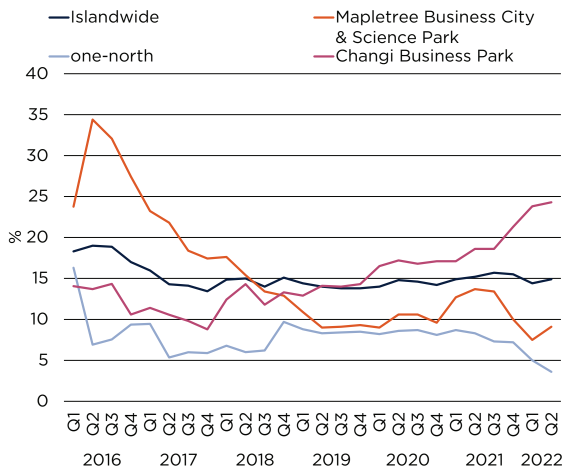
Source JTC, Savills Research & Consultancy

GRAPH 2: Prices of Upper-Storey Strata Factory and Warehouse Units, Q1/2015 to Q2/2022



Source JTC, Savills Research & Consultancy

GRAPH 3: Business Park Space Vacancy Rates, Q1/2016 to Q2/2022



Source JTC, Savills Research & Consultancy

MACROECONOMIC OVERVIEW

The Singapore economy expanded by 4.4% YoY in Q2/2022, faster than the 3.8% YoY growth in Q1/2022. This was attributed to a strong growth (5.7% YoY) in the manufacturing sector and also from the easing of local and border restrictions since April.

The overall factory activity in Singapore picked up steam in Q2, with the Purchasing Managers' Index (PMI) inching up from 50.1 in March to 50.3 in June. Despite headwinds such as moderation in global growth, recession risks, COVID-19 disruptions and the ongoing geopolitical tensions, the higher electronics PMI reading indicated a strong performance for the electronics industry. Singapore's non-oil domestic exports (NODX) also performed well, posting a 9.0% YoY growth in June.

RENTAL MARKET

Leasing volume[1] in Q2/2022 fell 10.4% YoY to 3,028 transactions, ending seven consecutive quarters of increase since Q3/2020. This was mainly due to fewer tenancies signed for single- and multiple-user factory segments which fell by 7.1% and 14.0% YoY respectively in Q2. The warehouse space was the only segment which recorded higher leasing numbers, rising by 7.0% YoY in Q2 (+1.8% YoY in Q1. Rising demand from ecommerce and third-party logistics (3PL) firms was the likely cause for this increase.

Correspondingly, the vacancy level for warehouse space eased to 9.1%, the lowest since Q4/2015. Although there was a net supply of nearly 1.2 million sq ft of new warehouse spaces in Q2, it was offset by a net demand of 1.8 million sq ft. It is likely to be due to healthy demand for modern logistics spaces, which helped to lift the take-up rate of new developments such as Logos Penjuru Logistics Centre. While vacancy level for multiple-user factory space fell by 0.6 of a percentage point (ppt) QoQ to 10.6% in Q2, that for single-user factory space remained flat at 9.7%.

Along with healthy demand for factory and warehouse spaces, especially those well located or modern facilities, rents continued to increase at a faster pace across all industrial segments in Q2/2022. The JTC's rental index for multiple-user factory and warehouse spaces have retraced their levels since 2016 and 2017 respectively. Savills' average monthly rent for prime multiple-user factories[2] and warehouse and logistics properties[3] increased by 5.2% QoQ to S$2.00 per sq ft and 1.4% QoQ to S$1.47 per sq ft in Q2.

1 Based on JTC's rental data (excluding business park spaces, only comprises single- and multiple-user factory as well as warehouse spaces).
2 Based on Savills basket of private multiple-user factory properties which ranges from 1,000 sq ft to 3,000 sq ft in size, with an average monthly asking rent of at least S$1.50 per sq ft.
3 Based on Savills basket of private multiple-user warehouse properties which ranges from 2,000 sq ft to 80,000 sq ft in size, with an average monthly asking rent of at least S$1.30 per sq ft.

SALES MARKET

Strata industrial sales activity[4] increased 28.0% QoQ to 512 transactions in Q2/2022, a level not seen since Q3/2014. Strata warehouse sales rose by 73.7% QoQ with 33 deals and multiple-user factory sales which rose by 25.3% QoQ to 475 deals. The sales activity in multiple-user factories was mainly led by resale transactions buildings such as West Connect Building and Mega@Woodlands. This was likely backed by local SMEs that acquired ramp-up facilities with modern specifications and reasonable remaining tenure for their own business operations.

As there were signs showing price resistance for some industrial buildings with shorter tenure, Savills' basket of industrial properties showed that prices for 30-year leasehold industrial properties remained flat at S$305 per sq ft in Q2/2022. On the other hand, some 60-year leasehold and freehold industrial properties recorded larger price increases, supporting the overall price growth in Q2. From Savills' basket of industrial properties, 60-year leasehold prices increased by 2.4% QoQ to S$457 per sq ft while that of freehold properties rose by 2.8% QoQ to S$749 per sq ft in Q2/2022.

BUSINESS PARK AND HIGH-SPECS INDUSTRIAL

The islandwide vacancy level for business park space rose by 0.5 of a ppt QoQ to 14.9% in Q2/2022, a reversal of the 1.1 ppt QoQ decline in the previous quarter. While vacancy rate in the Central and East Planning Region remained relatively flat from Q1, the completion of CleanTech Three led to an increase in vacancy rate in the West Planning Region to 29.9%, the highest since Q4/2004.

Owing to the scarcity and steady demand in Mapletree Business City and one-north regions, Savills' prime business park[5] monthly rents continued trending up in Q2, rising by 0.7% QoQ to S$5.93 per sq ft. Savills' standard business park properties[6] monthly rents also increased by 0.7% QoQ to S$4.03 per sq ft as some of the landlords at Science Park started to raise their rental expectations.

Some of the more accessible high-specs industrial developments in prime locations also saw an uptick in their rents in Q2/2022. Some firms do not mind a slight rental premium for the accessibility and convenience of the location. As such, the average monthly rent for Savills' high-specs industrial basket[7] increased by 1.1% QoQ to S$3.61 per sq ft in Q2/2022.

4 Based on JTC's sales caveat data, downloaded on 15 July 2022.
5 Based on business park-zoned spaces in the newer clusters which range from 1,000 sq ft to 5,000 sq ft in size, with an average monthly asking rent of at least S$5.50 per sq ft.
6 Based on business park-zoned spaces in the older clusters which range from 1,000 sq ft to 5,000 sq ft in size, with an average monthly asking rent of at least S$3.50 per sq ft.
7 Based on office-like industrial space which ranges from 2,000 sq ft to 4,000 sq ft in size, with an average monthly asking rent of at least S$3 per sq ft.

OUTLOOK

Going forward, Singapore's economic outlook is likely to be subject to further uncertainties and with that, increased risks of price volatilities. Besides rising imported inflation which translated to greater domestic cost pressures, there is also the spectre of China's growth slowdown and political tensions in the North Asia. Furthermore, the fight against inflation has woken up the US Federal Reserve Bank to hike interest rates into a slowing economy. The complementary actions by central banks in advanced economies to tame inflation is synchronising the global economic cycle on the downside. Singapore's economy, however, is still expected to expand this year because of the low base we came out of in 2021. Although the economy is expected to continue growing, the pace of growth will be slower compared with last year as trade-related sectors may moderate amid persistent supply constraints and the expected recession facing developed economies. It is perhaps in 2023 that we may see greater lacklustre economic performance once we have set a high totem mark this year.

Despite strengthening headwinds, the industrial and logistics market remained as one of the most resilient sub-asset classes across the spectrum of real estate market. As flight-to-quality continues with new supply remains tight in the near term, demand and rental growth for modern warehouse facilities and high-specification industrial facilities are expected to sustain. This could further incentivise owners to embark redevelopment and asset enhancement initiatives, though some may be cautious amid higher financing and construction costs. Rents are expected to rise but their increase will lag inflation as tenants may not be able pass through all the cost increases because there is no one-for-one increase in purchasing power.

Nevertheless, rental increases are expected from both the multiple-user factories and logistic & warehouse segments because supply chain uncertainties coupled with heightened inflation would motivate tenants to stock up and landlords to pass through higher service charges to the occupiers. Also, one cannot rule out the possibility that domestic pump priming works may be on the offering if the external economy slows, and SMEs may expand their industrial space to handle higher domestic related demand.

As rents for prime multiple-user factory space had already risen 9.0% Year-to-Date, we are revising out full-year increase from 0% to 2% to 10% to 12%. Even if the economy were to slow, the prospect of domestic pump priming activities may embolden SMEs to take on greater space. For warehouse & logistics properties, we maintain our forecast of a 2% to 5% rise this year.

TABLE 1: Rental Forecast for Multiple-User Factory and Warehouse & Logistics Segments

PERIOD	YoY % CHANGE IN MULTIPLE-USER FACTORY RENTS	YoY % CHANGE IN WAREHOUSE & LOGISTICS RENTS
2022F	10% to 12%	2.0% to 5.0%

Source Savills Research & Consultancy