Industry Outlook
Singapore Industrial REITs

DBS Group Research. Asian Insights Office

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Overall Outlook

Key observations

Occupancy rates fell marginally but rental rates and prices continue to rise. After two years of increases, occupancy rates fell marginally by 0.4ppt q-o-q in 1Q22. Although demand continued to be healthy, the decline in the overall occupancy rate was attributed to the significant increase in new completions during the quarter. Total available stock increased by 333,000sqm in 1Q22, more than double the quarterly average in the last two years since the COVID-19 pandemic started. More than 75% (or c.251,000 sqm) of new stock added to the market was contributed by multiple-user factory space, the highest quarterly increase since the tracking of data begun in 1999. Consequently, the 1.4ppt increase in vacancy rates of multiple-user factories was the main contributor for the increase in the overall vacancy rates for industrial properties in 1Q22.

Despite the dip in occupancy, rentals of industrial properties continued to rise, increasing 1.0% q-o-q. This is the strongest quarterly increase in the rental index in over eight years. In 1Q22, the warehouse segment posted the strongest growth in rents, rising 1.5% q-o-q. Prices of industrial space also continue to be on the uptrend, rising 2.1% q-o-q. Based on the number of caveats lodged, transaction volumes of industrial properties were 20% higher as compared to the previous year.

Rollover of project completions from FY21. Even as the labour crunch situation in Singapore eased gradually over the course of FY21, construction delays continue to persist. An estimated 784,000sqm of new supply was rolled over from FY21, and an estimated 2.7m sqm of new stock is expected to come online in FY22. In 1Q22, 333,000sqm has been delivered and the remaining 2.4m sqm will consist mainly of single-user factories (46%) that are developed by industrialists for their own use. 28% of the upcoming supply will be in the form of multiple-user factories, 22% in the form of warehouses, and only 3% in the form of business parks. With the continued opening of borders and construction activity picking up, we are likely to see a fair bit of new stock added to the market, which would be significantly higher than the average 0.6m sqm of new supply added each year over the past three years. The spike in new supply this year could lead to vacancy rates creeping up and potentially put some pressure on rents going forward.

What are we watching?

Delivery of new supply in FY22. At the beginning of FY21, it was feared that the spike in new supply of industrial properties would put pressure on occupancy and rental rates. However, it did not materialise, as the prolonged COVID-19 outbreak led to construction delays. Although the labour crunch situation persists, further relaxation in border restrictions seems to have led to a pickup in construction activities, which will likely improve further as the year progresses. While it may still be too early to tell if the entire 2.7m sqm of new supply will be completed this year, we believe that the amount of new stock in FY22 will outpace that of the past two years. The 333,000sqm of new supply added to the market in 1Q22 alone was already almost half of the total supply of 669,000sqm that was completed in the whole of FY21.

Although the bulk of the new supply projected to come online in FY22 is single-user factories that are typically built for industrialists' own use, the current economic uncertainties could lead to some slowdown in expansion plans for these businesses. This could, in turn, lead to single-user factories subletting some of its excess space and could put some pressure on the other industrial property segments.

Slower rate of new completion expected beyond FY22. Looking further ahead, the new supply of industrial space that is projected to be completed is expected to be more subdued. Between FY23 and FY25, only slightly more than 500,000sqm of new stock is expected to be added to the market on an annual basis. As such, the spike in new completions expected in FY22 may put some pressure on occupancy and rents in the near term, but we believe that any excess supply will gradually be absorbed in the medium term.

Key statistics for industrial sector

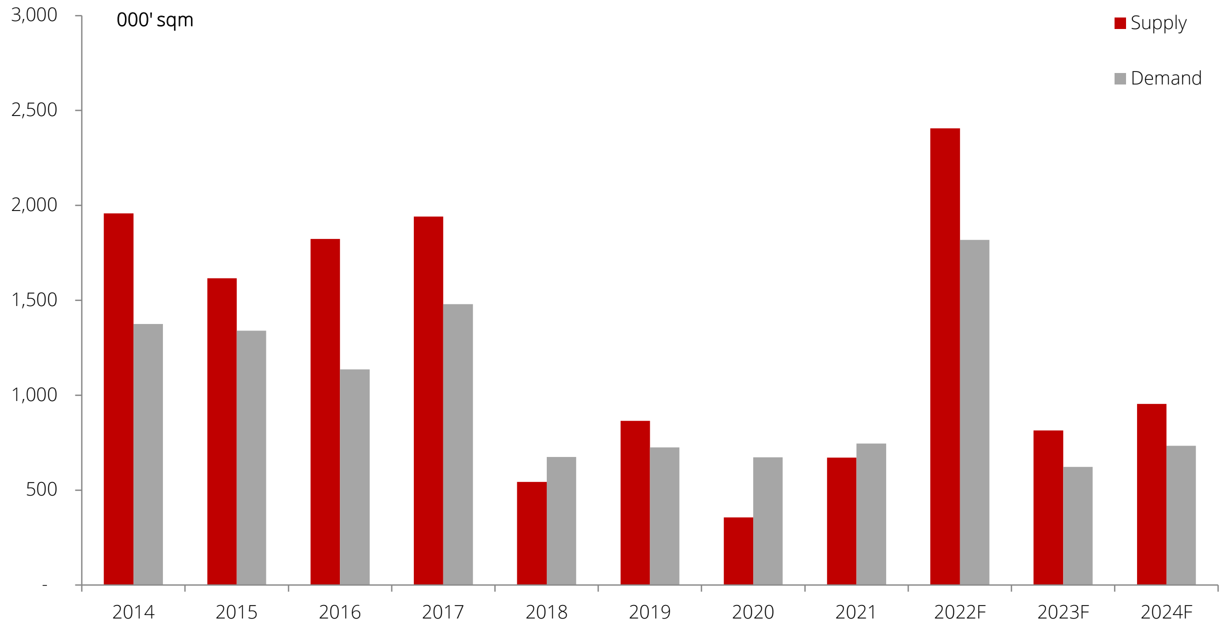
Key indicators of industrial sector

Key Indicators	1Q22	4Q21	% Change (q-o-q)	1Q21	% Change (y-o-y)
Price Index					
Industrial Property	93.0	91.1	2.1%	88.1	5.6%
Multi-User Factory	96.1	93.9	2.3%	91	5.6%
Single-User Factory	83.6	82.1	1.8%	79.2	5.6%
Rental Index					
Industrial Property	92.3	91.4	1.0%	90.1	2.4%
Multi-User Factory	90.3	89.5	0.9%	88.0	2.6%
Single-User Factory	97.4	97.1	0.3%	95.7	1.8%
Warehouse	87.3	86.0	1.5%	84.1	3.8%
Business Park	111.9	111.9	0.0%	112.2	-0.3%
Vacancy rate					
Industrial Property	10.2%	9.8%	4.1%	10.0%	2.0%
Single-User Factory	9.6%	9.4%	2.1%	9.1%	5.5%
Multi-User Factory	11.2%	9.8%	14.3%	11.0%	1.8%
Warehouse	9.7%	9.4%	3.2%	10.2%	-4.9%
Business Park	14.4%	15.5%	-7.1%	14.9%	-3.4%
Pipeline under construction					
Industrial Property	48.1	50.8	-5.2%	56.1	-14.2%
Single-User Factory	22.1	21.5	3.0%	22.4	-1.3%
Multi-User Factory	12.3	15.6	-21.3%	17.4	-29.3%
Warehouse	8.3	8.3	0.3%	9.9	-16.3%
Business Park	5.4	5.4	0.0%	6.4	-15.7%

Source: JTC Corporation, DBS Bank

Key Charts – Industrial Sector

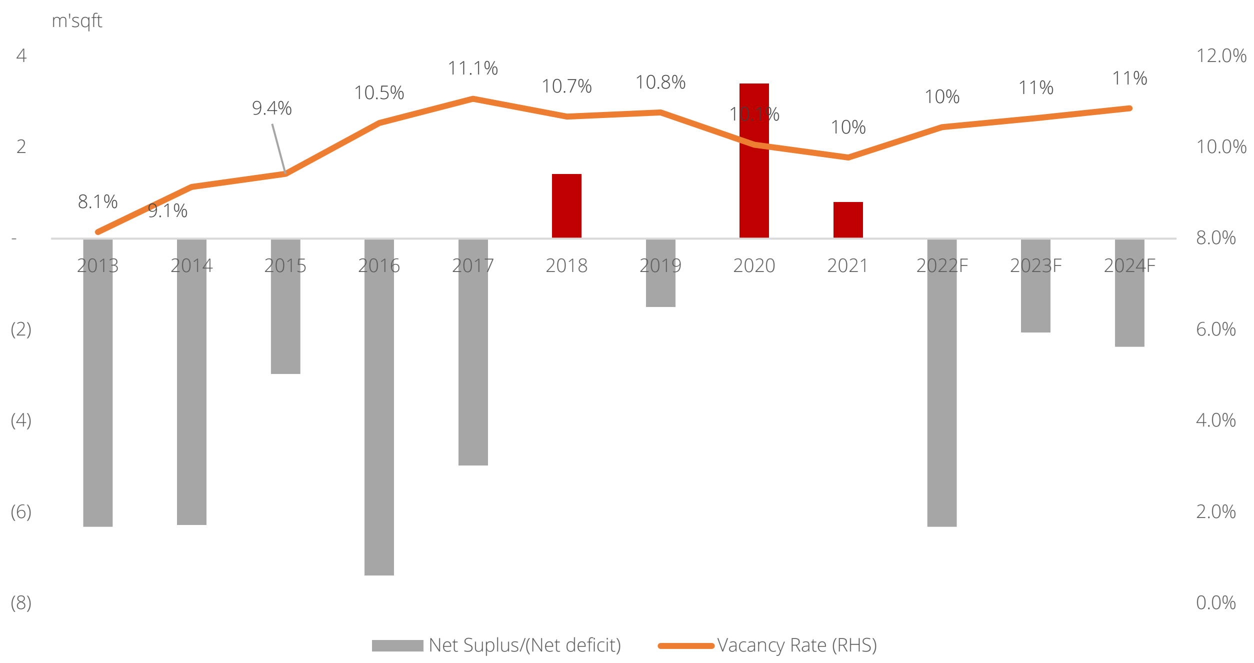
Spike in new supply in 2022F due to rollover from the past two years



Source: JTC Corporation, DBS Bank

- A total of c.2.7m sqm of new industrial space is expected to be added to the market in FY22, the largest supply to be added in a single year. This is a result of a rollover in project completions from the last two years as the COVID-19 pandemic led to construction delays and disruptions to supply chains.
- Only 669,000sqm of new supply was completed in the whole of FY21. The remaining 784,000sqm of new stock that was previously expected to be completed in FY21 has now been pushed to FY22.
- Of the remaining c.2.4m sqm of new supply expected to hit the market over the next three quarters of FY22, c.46% will be single-user factory space that has likely been developed by industrialists for their own use.
- Multiple-user factory space makes up another c.28% of the upcoming supply, and warehouses and business park spaces will contribute the remaining c.25% of the new stock.
- Take-up of multiple-user and warehouse spaces has been healthy in FY21, but the spike in supply in FY22 may put some pressure on occupancy and rental rates.

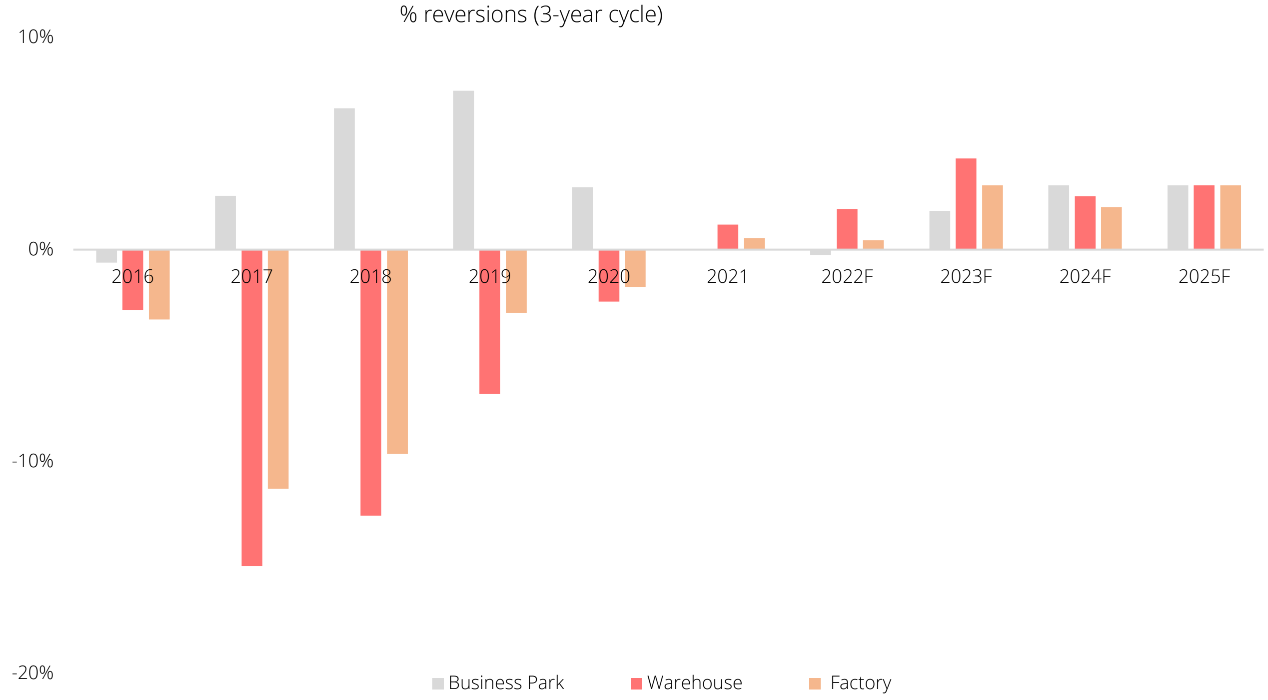
Spike in new supply in 2022 is expected to lead to negative net absorption



Source: JTC Corporation, DBS Bank

- Net absorption in FY20 and FY21 were positive due to the delay in construction and supply chain disruptions caused by the COVID-19 pandemic.
- Although the amount of new industrial supply in FY21 was more than twice the amount seen in FY20, pent-up demand and expansion needs led to a slightly positive net absorption in FY21.
- The positive net absorption in FY21 came from the multi-user factory and warehouse segments, and it was partially offset by the negative net absorption from the single-user factory and business park segments.
- With c.2.7m sqm of new industrial supply expected to hit the market in FY22, we might see some negative net absorption. We believe that the negative net absorption will likely be contributed by the single-user and multiple-user factory segments, which are projected to deliver the bulk of the new supply this year.
- In the medium term, net absorption could surprise on the upside as some construction delays persist. It may likely lead to some of the new supply in FY22 being rolled over to the following years and help spread out new stock more evenly and lessen pressure on vacancy rates.

Rental reversion trend expected to remain muted until 2023F

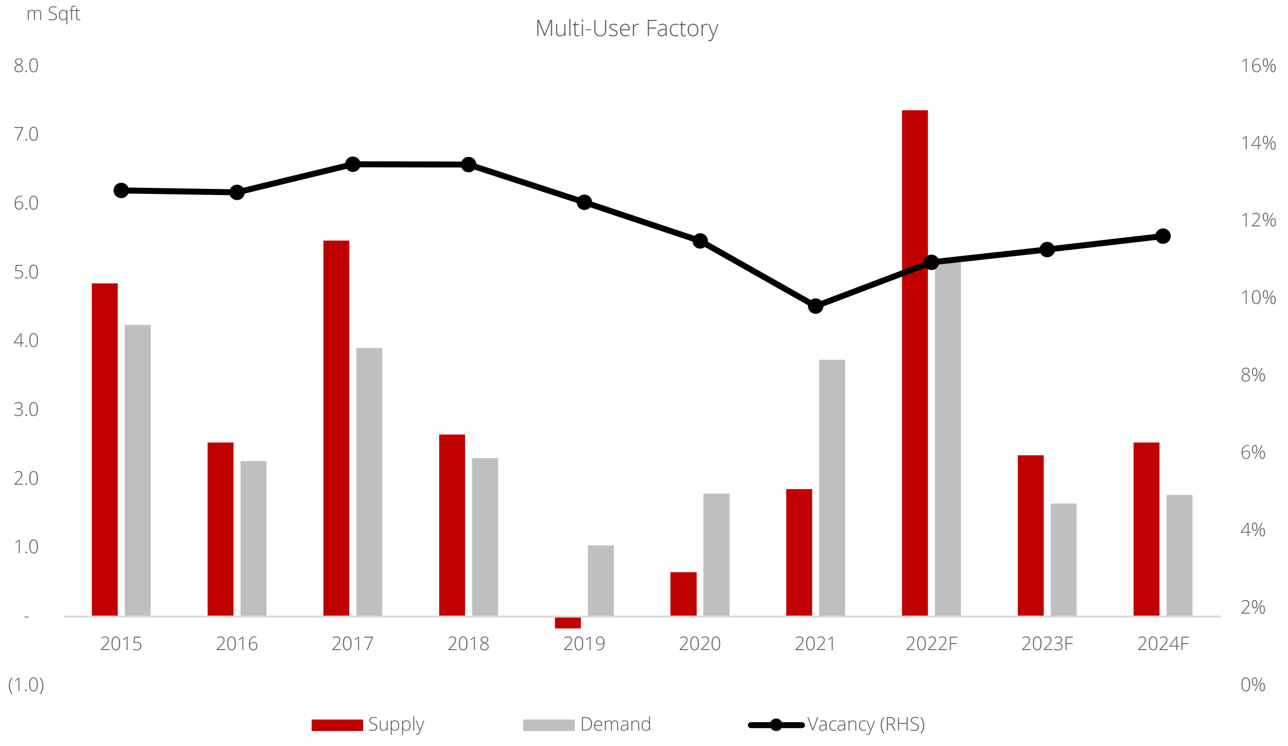


Source: JTC Corporation, Urban Redevelopment Authority, DBS Bank

- After several years of negative rental reversions (3-year cycle) for the factory and warehouse segments, the trend reversed in FY21. Positive rental reversions for business parks have been tapering off in the past two years, and it remained flat in FY21.
- Overall rentals in the near term are expected to remain relatively healthy as construction delays continue to limit the addition of new stock to the market.
- Over the last two years, the logistics sector has been driven by the advancement of e-commerce and stockpiling activities. This has led to the outperformance in rentals for the warehouse segment, and we believe its outperformance will continue through to FY23.

Industrial Sub-sector – Multi-User Factory

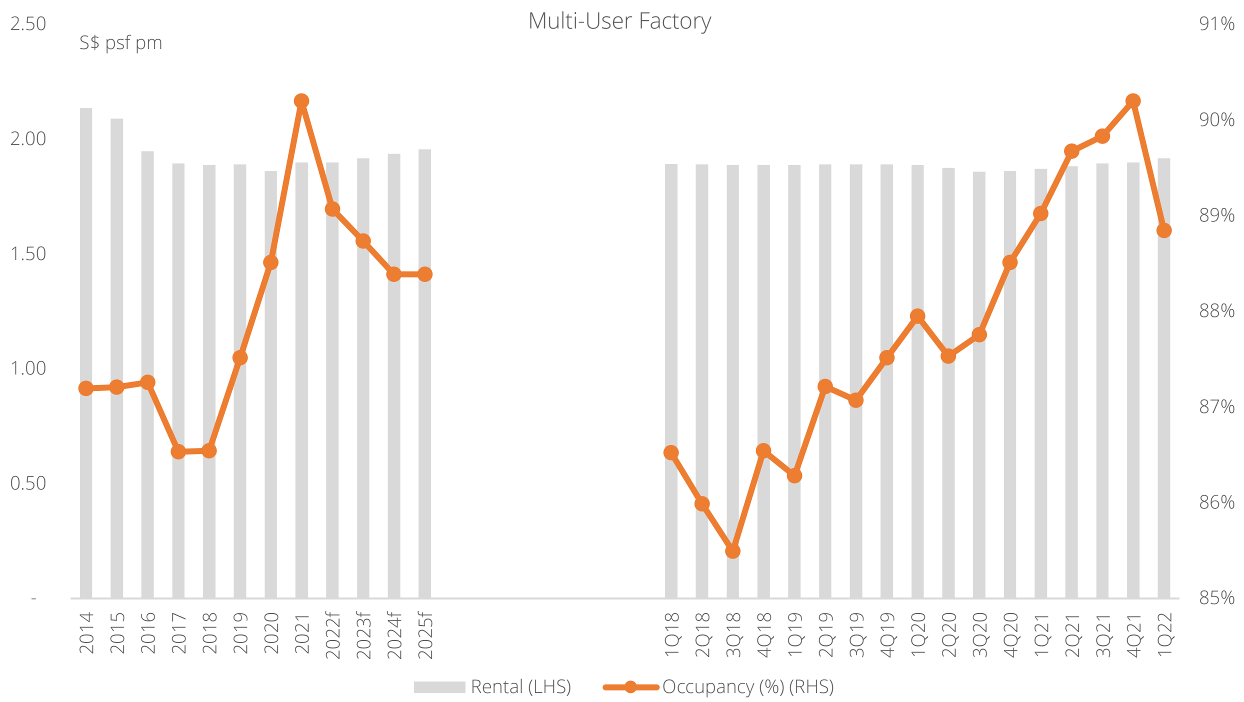
Multi-user factory supply: Supply spike in 2022F due to construction delays in previous two years



Source: JTC Corporation, Urban Redevelopment Authority, DBS Bank

- The drop in new completions in FY21 led to a 170bps improvement in occupancy rates, and vacancy rates fell to a low of 9.8%, a level not seen in the past nine years.
- Due to further construction delays in FY21, some new supply has been rolled over to FY22. This was likely the main reason for the robust increase in occupancy rates for the multiple-user factory space, to 90.2%.
- As more delays caused some new supply to be rolled over to FY22, oversupply in the multiple-user factory space could likely lead to vacancy rates inching back up to c.11% in FY22 and FY23.
- Occupancy rates could surprise on the upside in FY22 if the labour crunch situation persists and new supply is spread out more evenly over the next few years.

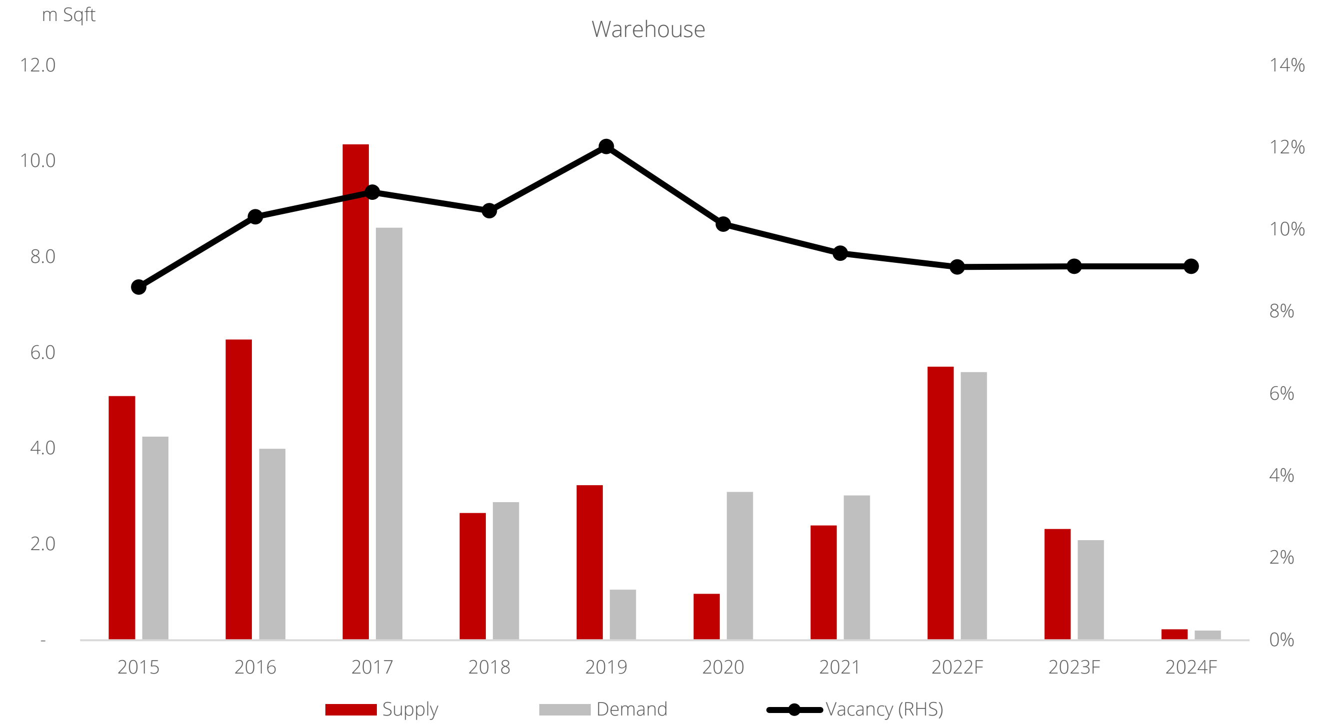
Multi-user factories: Occupancy facing some downward pressure from spike in new supply



Source: JTC Corporation, Urban Redevelopment Authority, DBS Bank

- Rentals declined marginally in 2020 mainly due to the COVID-19 pandemic, but we have since seen a rebound in FY21 due to healthy demand and limited new supply.
- In FY21, occupancy rates improved 170bps to 90.2% and rental rates improved 2.0% to S$1.90psf due to the limited new supply and construction delays.
- However, as the delivery of new supply is expected to spike in FY22, we expect occupancy and rental rates to face some downward pressure.
- This has been evident in 1Q22 as the occupancy rate trended downward due to the delivery of new supply, while rents continue to remain healthy and inch up marginally.
- Again, occupancy and rents could surprise on the upside if construction delays continue to persist and new supply continues to be rolled over to the next year.

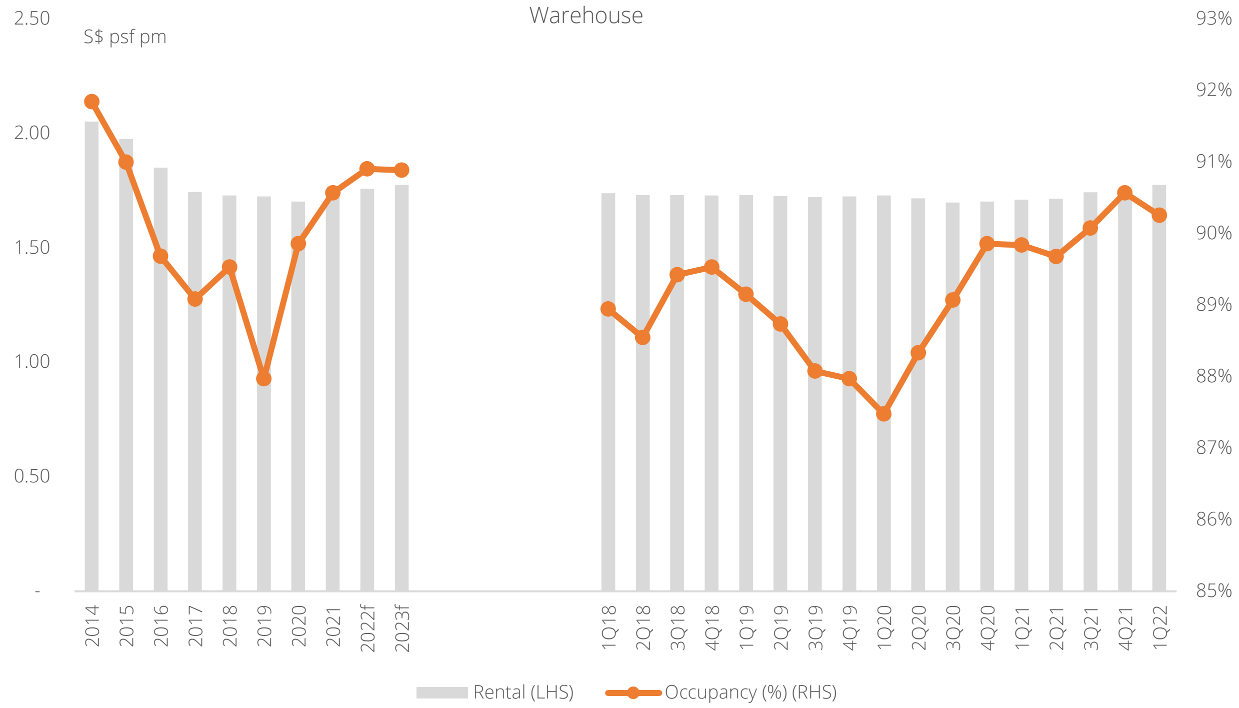
Warehouses: Logistics sector continues to drive demand for warehouses



Source: JTC Corporation, Urban Redevelopment Authority, DBS Bank

- Although there was an increase of c.300,000sqm in new warehouse supply in FY21, vacancy rates improved by 10bps due to strong demand from the logistics industry.
- Stockpiling and storage activities drove demand for warehouse space throughout FY21, with rental rates reporting some upside as more backfilling of excess supply from previous years continued.
- Demand from third-party logistics businesses and those supporting the e-commerce sector are expected to continue driving demand for modern warehouse space in the medium term.
- Even with more new supply expected to be added to the market in FY22, we believe occupancy rates will remain stable with the continued strong demand for modern warehouses.

Warehouses: Despite some new supply coming online, occupancy and rental rates are expected to remain robust

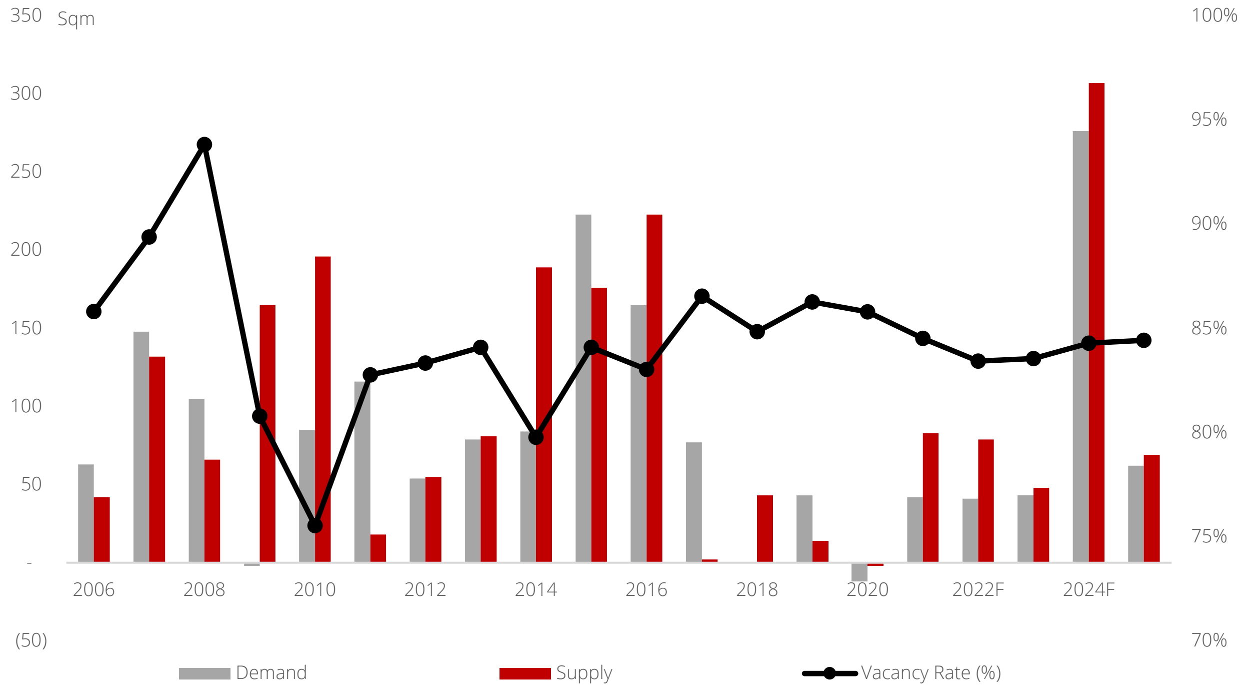


Source: JTC Corporation, Urban Redevelopment Authority, DBS Bank

- After six years of consecutive declines in rents, rental rates for warehouses started to pick up from early FY21, as supply was absorbed, boosted by demand for stockpiling and growth of the logistics sector.
- Riding on the surge in demand for storage and delays in completion of new supply, occupancy rates continued to inch up by 10bps to c.90% in FY21.
- Although some new supply is expected to come online in FY22, we expect overall warehouse occupancy and rental rates to continue inching up, driven by the continued expansion in the logistics sector.
- However, we could start to see a divergence in occupancy and rental performance between the modern logistics warehouses and the older general warehouses, which could face stiff competition.

Industrial Sub-sector – Business Parks

Majority of business park space has been pre-committed



Source: JTC Corporation, Urban Redevelopment Authority, DBS Bank

- Even though there has been some addition to the supply of business parks in FY21, demand was also strong, as most of the new projects were pre-committed; and also due to the lack of new supply over the past two years.
- As such, occupancy rates improved by 210bps to c.83.7% in FY21 as vacant space is gradually backfilled.
- Looking ahead, the lack of new supply of business park space in FY22 could lead to it outperforming the other segments as technology, biomedical, and consumer goods tenants continue to drive demand.
- Although some new supply is expected by FY23, we believe that most of it has already been pre-committed, and we believe occupancy and rental rates could continue its uptrend.
- As business parks in the city fringe precincts of Buona Vista and Alexandra, which are favoured over the rest of the island, we believe that these areas will outperform business parks in the other areas such as Jurong, Changi, and Tuas.

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