

“Not all segments of the manufacturing sector were affected negatively by the impact of the COVID-19 outbreak. We anticipate production in the sector to rise cautiously as manufacturers prepare for higher demand with the restart of economic activity both locally and across the globe.”

TAN BOON LEONG, EXECUTIVE DIRECTOR, INDUSTRIAL, CAPITAL MARKETS



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Singapore Research

Industrial

Q2 2020

CERTAIN SEGMENTS OF THE MANUFACTURING SECTOR REMAINED RESILIENT IN A TIME OF COVID-19, PROPPING UP THE INDUSTRIAL MARKET

MARKET SNAPSHOT

1,253 TRANSACTIONS

33.1% ▼ Q-O-Q | **45.9%** ▼ Y-O-Y

NUMBER OF TENANCIES

S\$143.8 MILLION

65.9% ▼ Q-O-Q | **68.0%** ▼ Y-O-Y

TOTAL SALES VOLUME

54.1 MILLION SQ FT GFA

UPCOMING NEW SUPPLY (Q2 2020 - 2024)

Despite the global flow of goods and supply chains being affected by a pandemic-led economic downturn, some bright spots emerged in the manufacturing sector. Segments involved in the production of essential commodities such as medical and hygiene-related products and the delivery of goods, together with warehouses and logistic spaces, that keep Singapore amply supplied, have mitigated the impact of the crisis in the industrial market.

- According to the Ministry of Trade and Industry's (MTI) Economic Survey of Singapore, the nation's economy declined by 0.7% year-on-year (y-o-y) in Q1 2020, a smaller contraction when compared to the earlier flash estimate of a 2.2% y-o-y decline. This was a result of the manufacturing sector recording a better than expected performance, with the biomedical manufacturing, precision engineering and transport engineering clusters registering output expansions that outweighed the declines in the electronics, general manufacturing and chemical clusters.
- The Singapore Purchasing Managers' Index (PMI) hit a trough in April 2020, but the index witnessed a slower contraction at 46.8 in May, as global demand for biomedical goods and pharmaceutical ingredients increased due to exigencies caused by the COVID-19 crisis.

Median rents stable in Q2 2020.

- The median rent of multiple-user factory spaces island-wide maintained at S\$1.78 psf pm in Q2 2020, unchanged from the previous quarter and from a year ago (Exhibit 1). However, leasing volume declined substantially by 43.5% y-o-y, with the number of tenancies from April to May 2020 falling to 1,253. This represented a total rental volume of S\$2.5 million. The circuit breaker in Q2 2020, the reduction in manpower as well as manufacturers putting off any expansion or relocation plans due to existing headwinds contributed to the lack of leasing activities.
- Similarly, the median prices of multiple-user factory spaces generally recorded slight declines or remained flat in Q2 2020 (Exhibit 2). While prices were generally stable in the second quarter, transaction volume fell from S\$168.6 million to S\$62.0 million between Q1 2020 and Q2 2020, due to the restriction of activities and a rise of economic uncertainties during the circuit breaker.

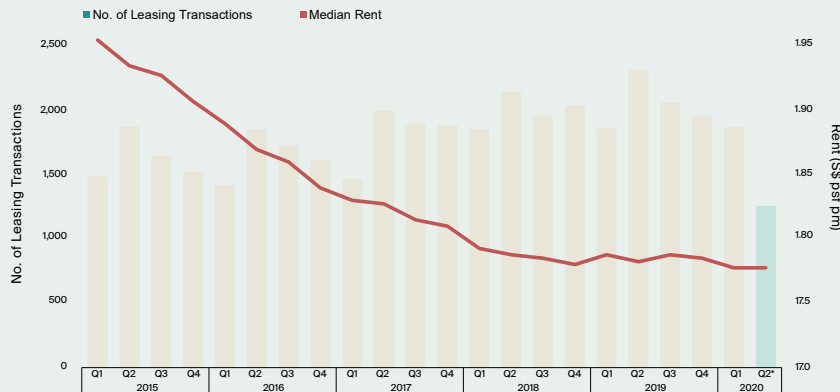
Government Policies

- With the announcement of Phase One post-circuit breaker on 2 June 2020, the resumption of most manufacturing and production facilities was allowed as these work environments posed lower transmission risks. These included the semiconductor, pharmaceutical, medical technology, precision engineering, and energy and chemical sectors.

Market Outlook

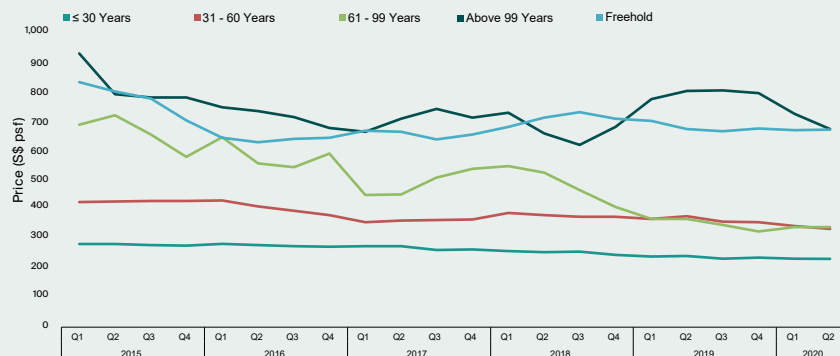
- As Singapore transits into Phase Two of the Re-opening, Knight Frank envisages production in the manufacturing sector to increase cautiously as manufacturers prepare for higher demand with the restart of economic activity both locally and across the globe. Not all segments of the manufacturing sector were affected negatively by the impact of the COVID-19 outbreak. As such, the biomedical manufacturing clusters should continue to expand due to the present increased global demand for medical-related equipment and products, thereby offsetting the reduction in industrial output from sub-sectors adversely affected

Exhibit 1: Leasing Volume and Median Rent of Multiple-User Factory Space



Source: JTC, Knight Frank Research
 Note: The median rent is based on a four-quarter moving average.
 *Q2 2020 data based on April and May 2020 data as at mid-June.

Exhibit 2: Average Prices of Multiple-User Factory Space by Balance Tenure*



Source: JTC, Knight Frank Research
 Note: The average unit price is based on a four-quarter moving average.
 *The balance tenure is based on the number of remaining years at the point of transaction.

by the pandemic. Pent-up demand for consumer goods after lockdown periods in many countries might also contribute to some increased activity in other manufacturing clusters.

♦ **As at Q1 2020, some 54.1 million sq ft gross floor area (GFA) of industrial space is slated to come on stream from Q2 2020 to 2024.** Of these, about 41.7% of the upcoming developments are projected to be completed in 2020, with the majority comprising factory space.

♦ **The road to recovery will not be immediate and industrial space users will be cautious in expanding their physical space requirements until such time when economic improvement is more certain.** Therefore, industrial rents and prices in general are expected to be under some pressure and could moderate downwards by about 5% in 2020, given the upcoming supply in 2020, as well as the poor economic outlook both domestically and globally.

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