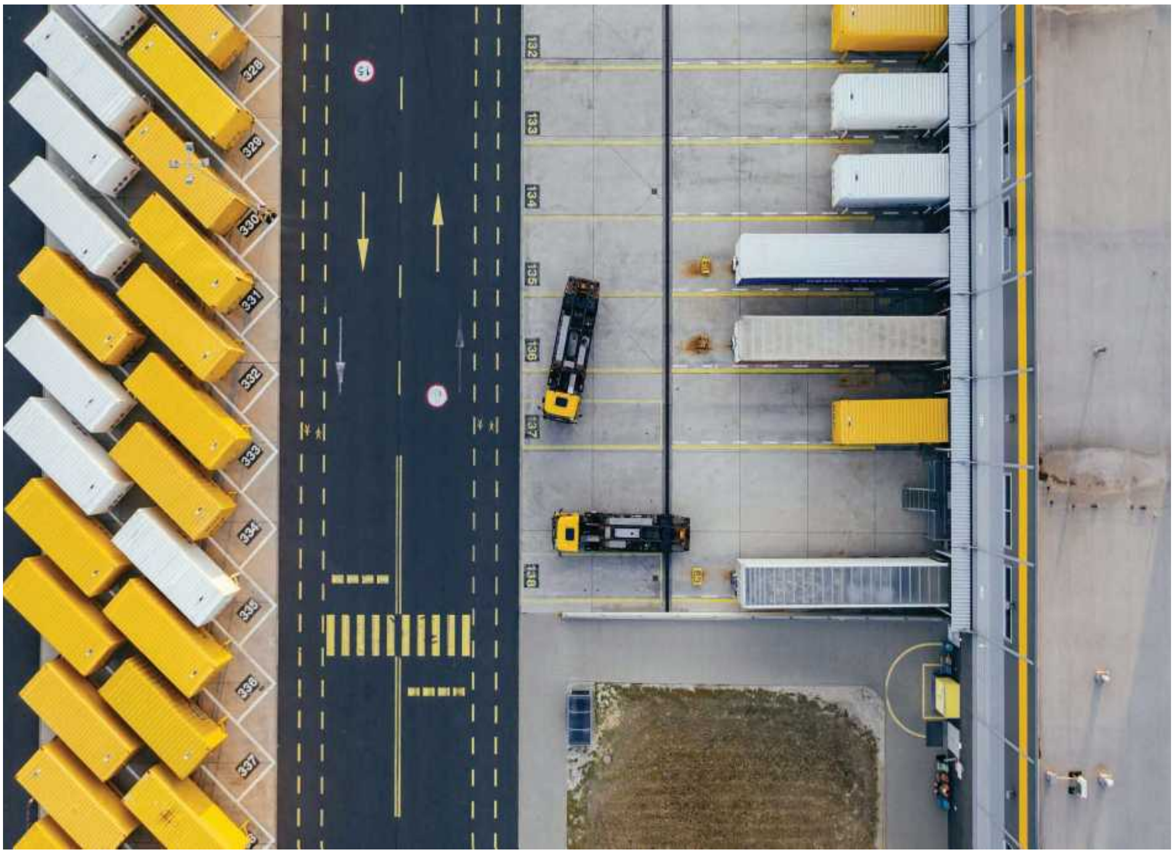
MARKET IN MINUTES
Savills Research

Industrial

savills



Resilient rental growth despite headwinds

Rental growth is expected to continue, albeit at a moderate pace.

- Leasing sentiment and momentum in the industrial market softened, with leasing volume falling 2.2% year-on-year (YoY) to 3,138 tenancies in Q3/2023.
- Savills' monthly prime industrial rents remained on a positive trend in Q3, with multiple-user factories and warehouse and logistics properties rising 4.3% quarter-on-quarter (QoQ) to S$2.22 per sq ft and 0.6% QoQ to S$1.62 per sq ft respectively. The JTC's rental index for All Industrial Property had risen 7.1% YTD with those of multiple-user factories and warehouses going up by 8.2% and 6.8% respectively.
- Strata industrial sales activity decreased 7.1% QoQ to 380 transactions in Q3.
- Prices for 30- and 60-year leasehold industrial properties increased by 0.9% to S$323 per sq ft and 0.6% QoQ to S$499 per sq ft respectively.
- Prices for freehold industrial properties went up by 0.8% QoQ to S$803 per sq ft in Q3.
- Savills' prime business park monthly rents held firm in Q3, edging up 0.1% QoQ to S$5.89 per sq ft.
- Landlords of the standard business park properties might rather lower their rental expectations than to have vacant premises, hence resulting in a 0.2% QoQ decline in the monthly rents of Savills' standard business park properties to S$4.10 per sq ft.
- From the Savills high-spec industrial basket, the average monthly rent remained flat at S$3.83 per sq ft in Q3.
- In 2024, rents for multiple-user factory and warehouse spaces are expected to remain flat a moderate pace amid the upcoming stream of supply, high operating costs and challenging business conditions both abroad and locally.

"Most of the industrial sector is facing tremendous external head winds, therefore rental growth in 2024 is likely confined to the logistics market where fears of supply chain disruption remain."

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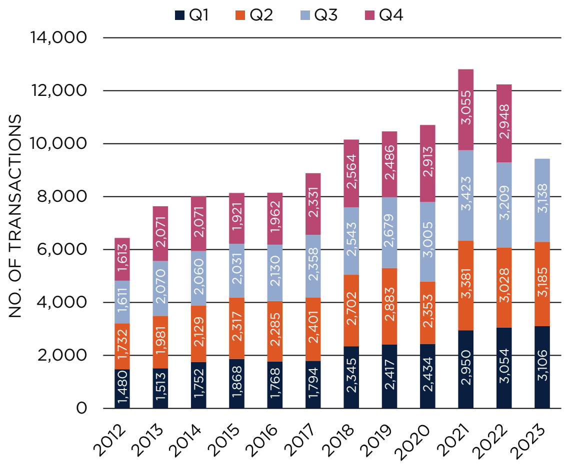
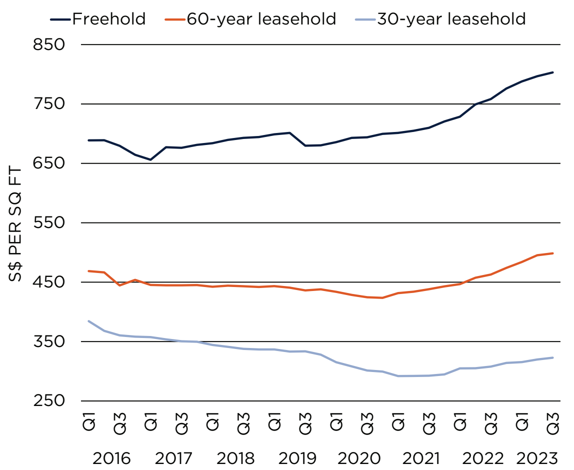
GRAPH 1: Leasing Volumes of Factories and Warehouses, 2012 to Q3/2023



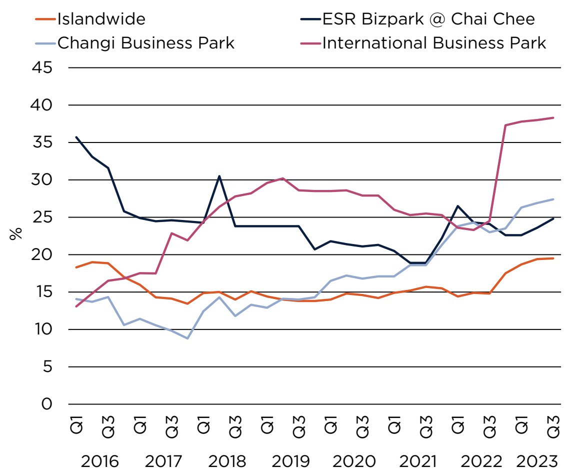
Source JTC, Savills Research & Consultancy

GRAPH 2: Prices of Upper-Storey Strata Factory and Warehouse Units, Q1/2016 to Q3/2023



Source JTC, Savills Research & Consultancy

GRAPH 3: Business Park Space Vacancy Rates, Q1/2016 to Q3/2023



Source JTC, Savills Research & Consultancy

MACROECONOMIC OVERVIEW

According to advance estimates released by the Ministry of Trade and Industry, the Singapore economy grew 0.7% YoY in Q3/2023, surpassing the 0.5% expansion in the previous quarter. While recovery in the tourism sector helped to support economic growth, the manufacturing sector faced broad-based weaknesses and therefore a continued drag on the overall economy.

Nonetheless, there are some signs of stabilisation as Singapore's overall manufacturing sentiment headed back to positive territory for the first time in six months in September. Even though the electronics sector was still contracting, the Manufacturing PMI edged up to 50.1 in September, signalling that the manufacturing downturn may have bottomed. Singapore's key exports also showed a slower pace of decline, with non-oil domestic exports (NODX) falling by 13.2% YoY in September, moderating from the 22.5% contraction in August.

RENTAL MARKET

Despite some signs of stabilisation, leasing momentum in the industrial market softened amid a slowdown in the region and Europe. These economic headwinds have weakened tenants' expansion plans, resulting in a decrease in new tenancies signed. The leasing volume[1] ended a two-quarter increase with a 2.2% YoY decline to 3,138 tenancies in Q3/2023, with most being tenancy renewals. While leasing activities for multiple-user factory spaces remained relatively stable (+0.4% YoY) in Q3, that for single-user factory spaces slipped by 5.6% YoY. The overall leasing demand was largely dragged down by the warehouse segment which continued to see a decline in tenancies signed (-13.0% YoY) in Q3.

Nonetheless, the warehouse vacancy rate fell on the back of tight supply, down 0.3 of a percentage point (ppt) QoQ to 8.7% in Q3. Although there was positive net demand for single- and multiple-user factory segments, their vacancy rates rose marginally to 11.8% (+0.4 of a ppt QoQ) and 10.3% (+0.2 of a ppt QoQ) respectively in Q3 as new factory supply came online.

Notwithstanding weak external demand, rents continued to pick up in Q3. The index of general industrial rents tacked by JTC extend gains in Q3, rising for 12 consecutive quarters to new record high. Rents rose across all segments in Q3, with single-user factory and warehouse segments registering a faster pace of rental growth. Savills' monthly prime industrial rents remained on an upward trend in Q3, with multiple-user factories[2] and warehouse and logistics properties[3] rising by 4.3% QoQ to S$2.22 per sq ft and 0.6% QoQ to S$1.62 per sq ft respectively. The JTC's rental index for All Industrial Property had risen 7.1% YTD with those of multiple-user factories and warehouses going up by 8.2% and 6.8% respectively.

SALES MARKET

Following a short-lived rebound in Q2, strata industrial sales activity[4] decreased 7.1% QoQ to 380 transactions in Q3. Coupled with protracted weakness in the manufacturing sector, lingering high interest rates and muted global growth are likely to have hindered sales activity. Even though sales momentum for the warehouse space picked up again (+13.6% QoQ), overall sales were dragged down by the slower sales for multiple-user factory space (-8.8% QoQ). Although there was a marginal transaction volume, the total transaction value for both segments increased implying that demand was centered on larger premises.

Industrial prices also continued to grow, with the JTC price index rising consecutively since Q2/2021. The Savills' basket of industrial properties showed that prices grew across all tenure types in Q3, albeit at a moderated pace as buyers turned cautious. Prices for 30- and 60-year leasehold industrial properties increased 0.9% to S$323 per sq ft and 0.6% QoQ to S$499 per sq ft respectively, while that for freehold industrial properties went up 0.8% QoQ to S$803 per sq ft in Q3.

BUSINESS PARK AND HIGH-SPEC INDUSTRIAL

Islandwide vacancy level for business parks remained high at 19.5% in Q3, an inch up from the 19.4% in Q2. Despite the improvement in vacancy rates in Mapletree Business City, Science Park and CleanTech Park, the islandwide vacancy level was affected by the poor take-up rate in the East Planning Region where the vacancy level went up to 27.0% (+0.7 of a ppt QoQ), the highest since 2009. It was mainly attributed to ESR Bizpark @ Chai Chee where vacancy level rose by 1.2 ppt QoQ to 24.8%. Furthermore, the vacancy level in Changi Business Park also increased by 0.5 of a ppt QoQ to record high at 27.4% in Q3.

As a result of steady demand in the better-maintained prime business parks, Savills' prime business park[5] monthly rents held firm in Q3, edging up 0.1% QoQ to S$5.89 per sq ft. On the other hand, landlords of the standard business park properties might rather lower

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.

4 Based on JTC's sales caveat data, downloaded on 1 November 2023.

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.

their rental expectations than to have vacant premises. This resulted in a 0.2% QoQ decline in the monthly rents of Savills' standard business park properties[6] to S$4.10 per sq ft.

Underpinned by the growth of the high-value manufacturing industries, the demand for high-spec buildings remained strong. Newly revamped developments such as 7002 Ang Mo Kio Avenue 5 have been drawing interest before completion, securing about 50% occupancy nearing to completion. Nonetheless, rental growth has stalled as economic challenges have made occupiers cautious. According to Savills' high-spec industrial basket[7], the average monthly rent remained flat at S$3.83 per sq ft in Q3.

OUTLOOK

Going forward, downside risks in the global economy remain. As inflation had ratchetted up interest rates, the tighter global financial conditions, it could potentially prolong the current slowdown in the manufacturing sector. The geopolitical tensions among major global economies could continue to dampen business confidence and weigh on global trade. Coupled with the surge in completions in 2024, industrial rental growth is anticipated to remain flat next year as new supply outpaces demand. Even though industrialists may become more conservative and cautious with their rental negotiations and expansion plans, some industrial segments are expected to continue to outperform the rest.

Notably, new economy assets such as modern logistics, high-spec industrial and business park developments are poised to ride on the tailwinds of structural trends. In particular, prime logistics properties are limited in supply and almost at full capacity. The few new completions which are slated to come onstream by end-2025 have already achieved healthy pre-commitment rates. This might lend further support to the rental growth for modern warehouse facilities, especially those in good locations. High-spec industrial facilities and business parks with good amenities and accessibility are also likely to continue to see potential spillover demand from the current tight CBD office market.

As demand for multiple-user factory space is anticipated to be supported by high-value industries, rents are forecasted to see healthy growth of around 10% in 2023. Owing to tight supply for quality warehouse space, warehouse rents are projected to grow around 5% by end-2023. In 2024, rents for multiple-user factory and warehouse spaces are expected to remain flat a moderate pace amid the upcoming stream of supply, high operating costs and challenging business conditions both abroad and locally.

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.

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
2023F	10%	5%
2024F	0%	0% to 3%

Source Savills Research & Consultancy