

Q4 2023

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Manufacturing sector starts to turnaround

“Industrial real estate was in a holding pattern for most of 2023, with manufacturing in the doldrums. Being unsexy (i.e. without the drama that characterises volatility), Singapore’s industrial market is attractive for both local and international firms for its consistent stability”

NORISHIKIN KHALIK, DIRECTOR, OCCUPIER STRATEGY AND SOLUTIONS

COMEBACK OF THE MANUFACTURING SECTOR IN SINGAPORE

Advance estimates showed that the Singapore economy expanded by 1.2% for the whole of 2023, recording growth of 2.8% y-o-y and 1.7% q-o-q in the final quarter of the year. Despite the manufacturing contraction of 4.7% and 3.6% in the previous quarter and the whole of 2023 respectively, the sector ended the year on a positive note with a gain of 3.2% in Q4 2023.

The Economic Development Board (EDB) reported that Singapore’s total manufacturing output increased by 1.0% y-o-y in November 2023. All clusters except for biomedical manufacturing and precision engineering recorded growth, with the electronics cluster registering the highest expansion of 7.3%

and the transport engineering cluster following close behind at 7.2%. Based on the Singstat Q4 2023 Business Expectations Survey, manufacturing business sentiments remained positive for the period October 2023 to March 2024.

The overall Singapore Purchasing Manager’s Index (PMI) recorded marginal improvement for the fourth consecutive month since September, at 50.5 in December. The electronics PMI also finally broke the streak of contractions and showed expansion in November and December with readings of 50.1 and 50.2 respectively. Taking into account the combination of the above data, the manufacturing sector appears to have turned positive in the last quarter of 2023 with the momentum expected to continue in the year ahead.

3,153 LEASES

Number of Industrial Tenancies
2.4% ▼ Q-O-Q | 4.8% ▲ Y-O-Y

\$578.0 MILLION

Total Industrial Sales
42.4% ▼ Q-O-Q | 39.0% ▼ Y-O-Y

37.6 MILLION SF GFA

Upcoming Supply (Q4 2023 to 2027)

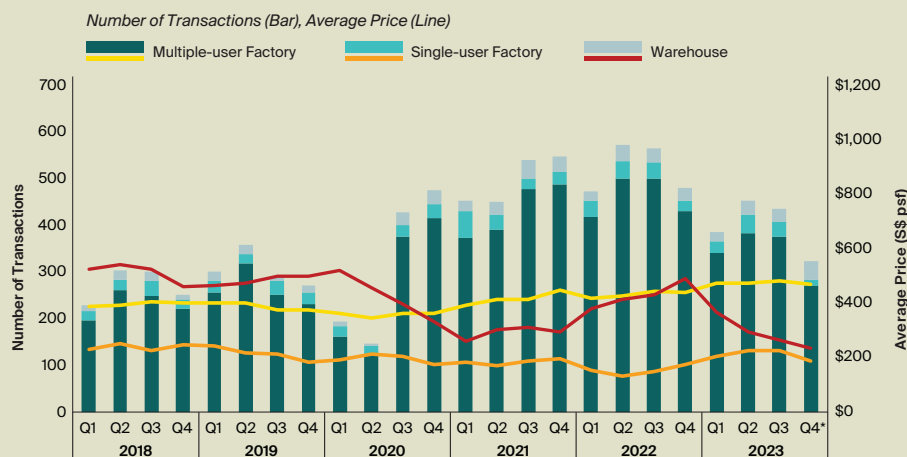
SLOWER SALES BUT MARGINAL GROWTH IN LEASING ACTIVITIES IN 2023

Total industrial sales in 2023 amounted to S\$3.6 billion, a 4.4% decline from the S\$3.8 billion in 2022. Sales activity in Q4 2023 was similarly slow as well, registering S\$578.0 million with 329 caveats lodged, falling 42.4% q-o-q from S\$1.0 billion with 441 caveats lodged in the previous quarter (Exhibit 1). The notable transactions in 2023 included the sale of Jardine C&C Regional HQ and Mercedes-Benz Centre for S\$142.0 million and S\$131.0 million respectively to M&G Real Estate earlier in the year, in February.

There were 12,910 rental transactions in 2023, a growth of 2.7% from 12,568 in 2022. However, islandwide leasing activity slowed by 2.4% in the last quarter of the year, with 3,153 rental transactions compared to 3,230 in the previous quarter (Exhibit 2). Occupancy levels remained stable, supporting the improving unit rents of multiple-user factory spaces with moderate increases of about 2.2% to S\$1.90, S\$2.32 and S\$2.83 psf per month for the 25th percentile, median and 75th percentile respectively in Q4 2023.

Islandwide unit rents for warehouse facilities showed stable growth in 2023, particularly the 75th percentile rent of S\$2.70 psf per month as at Q4 2023, the highest since Q1 2000 as demand for quality logistics space remained strong. Rental transaction volume increased by 0.8% to 1,953 units in 2023. On a quarterly basis, leasing

Exhibit 1: Industrial Sales Performance



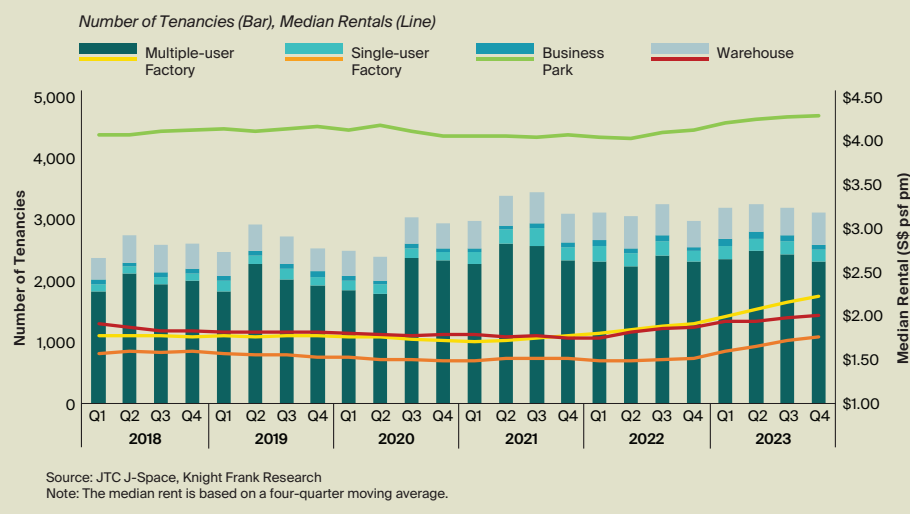
Source: JTC J-Space, Knight Frank Research

Note: The average unit price is based on a four-quarter moving average of strata transactions.

*Q4 2023 data is based on transactions downloaded as at 5 January 2023.

volume grew 14.7% to 523 units from 456 units in Q3 2023, as healthy demand for quality warehouse and logistics facilities persisted throughout 2023.

Exhibit 2: Industrial Leasing Volume and Median Rentals



SINGAPORE CONTINUES TO EXHIBIT STRONG POTENTIAL

With the growth in manufacturing output and positive business sentiment that started from the second half of 2023, the volume of fixed asset investment (FAI) received by Singapore also increased. According to EDB, S\$7.4 billion was received in Q3 2023, reflecting a very substantial increase of 373.6% q-o-q and 675.8% y-o-y. All clusters received more investment commitments than the previous quarter, with exception of the transport engineering cluster. The chemicals manufacturing cluster received the largest amount of investment at S\$4.2 billion, the highest since the S\$9.4 billion of Q2 2008. With signs of a better demand outlook in 2024, global industrial players are confident to invest in the stable industrial sector of Singapore from which to take advantage of the rebound.

As such, several industrial players officially opened and started operations in Singapore, having planned and prepared during the downcycle. For example, the highly anticipated Hyundai Motor Group Innovation Centre Singapore (HMGICS) located within the Jurong Innovation District (JID) was officially opened in November 2023. Occupying seven storeys and 935,384 sf of space, Hyundai Ioniq 5 EVs are produced here. Leica Microsystems, a medical technology firm, revealed its new S\$82.1 million, 221,736 sf manufacturing and research and development facility in Jurong in October 2023. Other than manufacturing players, e-waste and battery recycler KGS opened its first battery recycling plant in Singapore in October, adding to the total of three battery recycling plants islandwide.

For further information, please contact:



Norishikin Khalik
Director
Occupier Strategy and Solutions
+65 6228 7347
norishikin@sg.knightfrank.com



Leonard Tay
Head
Research
+65 6228 6854
leonard.tay@sg.knightfrank.com



Alvin Teng
Director
Occupier Strategy and Solutions
(Industrial)
+65 6228 6893
alvin.teng@sg.knightfrank.com



Sim Li Wei
Analyst
Research
+65 6228 6856
liwei.sim@sg.knightfrank.com

MARKET OUTLOOK

After staying in a holding pattern through most of 2023 where key indicators such as occupancy levels, prices, and rents for various industrial property types generally remained steady, occasionally even recording slight gains, manufacturing output and GDP contribution began to show signs of growth towards the end of the year. And although challenges, such as the attacks on commercial shipping in the Gulf of Aden, persist, a more optimistic outlook for manufacturing in 2024 can be expected. Large international manufacturers such as semi-conductor producers that had invested in new facilities or expansion spaces during the winter of discontent in H2 2022 and 2023, prepare to begin operations in order to catch the wind of global rebound in the year ahead.

With the relatively positive outlook at the closure of a quiet 2023, the overall industrial rental and price growth for 2024 is projected to be 3% to 5%. A more optimistic increase of 5% is likely for warehouses as demand remains intact for high quality storage spaces amid tight occupancy levels.

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