

# Industry Outlook

## Singapore Industrial REITs

DBS Group Research. Asian Insights Office

2 September 2022

### Overall Outlook

#### Key observations

**New supply continues to surge but demand keeping pace.** In 2Q22, 322,000 sqm of new supply of industrial space was added to the market. Total new supply added to the market in 1H22 was 655,000 sqm, almost on par with the 669,000 sqm added to the market for the whole of FY21. With borders now reopened and construction activity ramping up, project completions are also expected to pick up, and a further c.1.6m sqm of new industrial space is expected to come online in 2H22. Around 43% of new supply will be single-user factory space, c.30% will be multiple-user factory space, while the remaining c.27% will come from warehouses and business parks.

Despite the faster pace of project completions, demand in 2Q22 continued to be robust. Although the multiple-user and warehouse segments saw the largest increase in new supply of 129,000 sqm and 109,000 sqm respectively, demand was more than sufficient to offset new stock. Both segments reported positive net absorption in 2Q22, which helped to offset the slight negative net absorption in the single-user and business parks segments. Overall occupancy rate for industrial properties inched up 0.2 ppt in 2Q22 to 90.0%.

**Rental index at a five-year high.** On the back of higher occupancies and continued strong demand, the rental index for industrial properties has inched up to 93.7 in 2Q22. This is the highest level reported in more than five years, with the rental index at 93.8 at the end of FY16. The increase in rental index was contributed by all four segments of industrial properties which also reported an increase q-o-q. Unsurprisingly, the most significant increase in rental index in 2Q22 came from the multiple-user and warehouse segments as a result of stock take ups. Within the multiple-user factory space, the highest increases in rental index were seen in the North Region and West Region where the q-o-q index increased 3.6 ppts and 2.3 ppts, respectively.

#### What are we watching?

**Delivery of new supply in FY22.** As the labour crunch eases and project completion continues to ramp up, we are expecting the delivery of more stock this year. The 655,000 sqm of new supply completed in 1H22 was already almost on par with the total new supply in FY21. We understand that many of these were projects that were delayed, and we are expecting more of such projects to be completed by the end of FY22. Based on estimates from JTC, a further 1.5m sqm of new supply is projected to be delivered in 2H22, with the bulk coming from the single-user and multiple-user factory space. We are keeping a close watch on the new supply for multiple-user factories where c.470,000 sqm of stock will be added in 2H22, potentially putting pressure on occupancies and rents.

**Slower rate of new completions expected beyond FY22.** Looking further ahead, new supply of industrial space that is projected to be completed is expected to slow down. Between FY23 and FY25, slightly less than 900,000 sqm of new stock is expected to be added to the market on an annual basis. Approximately 53% of the new stock in the next three years is single-user factory space, c.19% are multiple-user factory space, c.16% are business parks, and c.13% are warehouses. Assuming that demand continues to remain healthy, we believe that the spike in new supply in FY22 may put some pressure on rents and occupancies, but the excess supply should be gradually absorbed from FY23 onwards.

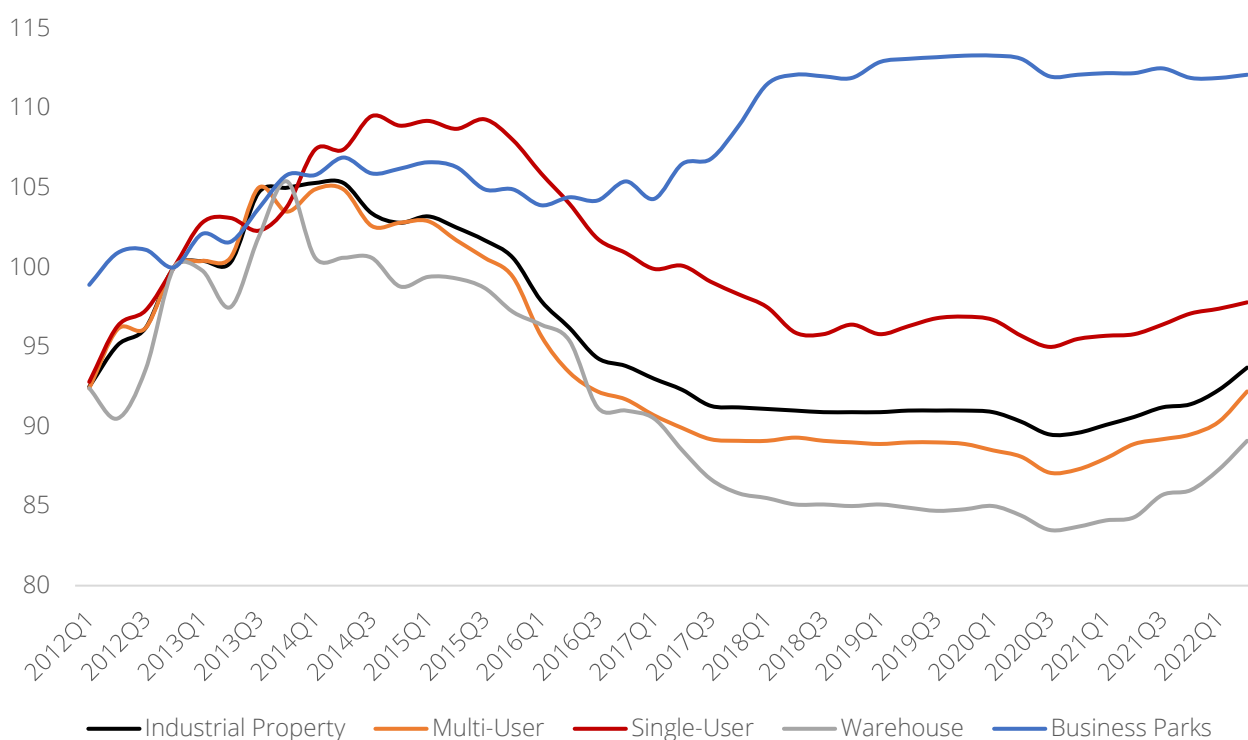
## Key statistics for industrial sector

### Key indicators of industrial sector

Key Indicators	2Q22	1Q22	% Change (q-o-q)	2Q21	% Change (y-o-y)
<b>Price Index</b>					
Industrial Property	94.4	93.0	1.5%	89.7	5.2%
Multi-User Factory	97.7	96.1	1.7%	92.6	5.5%
Single-User Factory	84.6	83.6	1.2%	80.7	4.8%
<b>Rental Index</b>					
Industrial Property	93.7	92.3	1.5%	90.6	3.4%
Multi-User Factory	92.2	90.3	2.1%	88.9	3.7%
Single-User Factory	97.8	97.4	0.4%	95.8	2.1%
Warehouse	89.1	87.3	2.1%	84.3	5.7%
Business Park	112.1	111.9	0.2%	112.2	-0.1%
<b>Vacancy rate</b>					
Industrial Property	10.0%	10.2%	-2.0%	9.9%	1.0%
Single-User Factory	9.7%	9.6%	1.0%	9.1%	6.6%
Multi-User Factory	10.6%	11.2%	-5.4%	10.3%	2.9%
Warehouse	9.1%	9.7%	-6.2%	10.3%	-11.7%
Business Park	14.9%	14.4%	3.5%	15.2%	-2.0%
<b>Pipeline under construction</b>					
Industrial Property	47.9	48.1	-0.4%	53.1	-9.8%
Single-User Factory	24.4	22.1	10.4%	22.2	9.9%
Multi-User Factory	10.7	12.3	-13.1%	16.8	-36.5%
Warehouse	7.6	8.3	-7.7%	7.9	-3.7%
Business Park	5.1	5.4	-5.2%	6.1	-15.9%

Source: JTC Corporation, DBS Bank

### Rental Index: Rentals for industrial properties are at a 5-year high

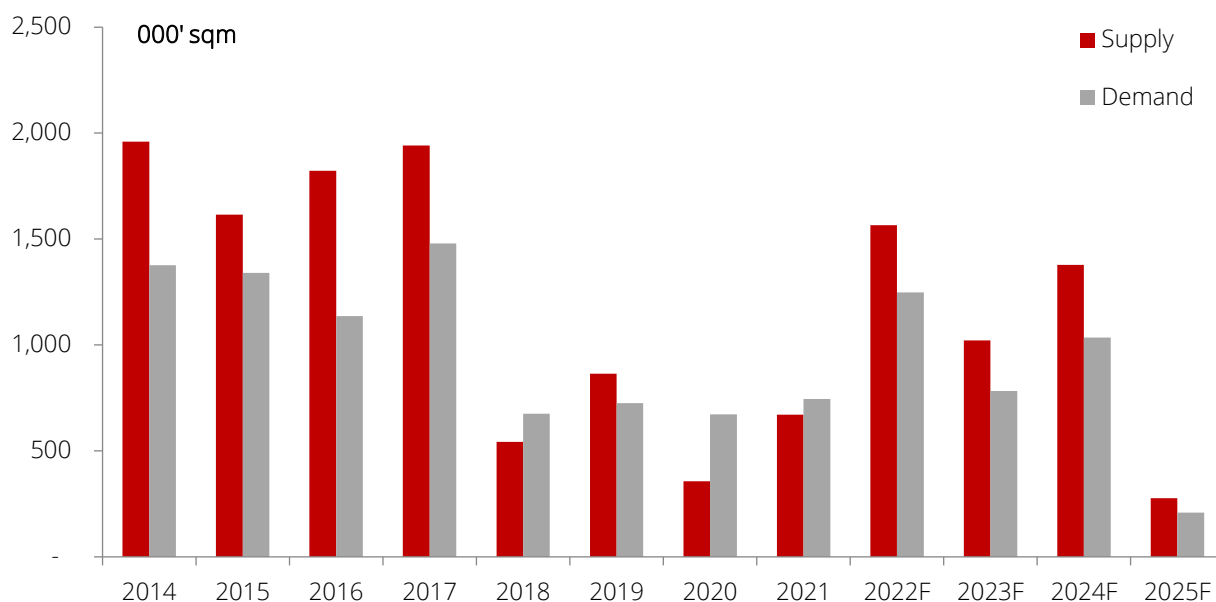


Source: JTC Corporation, DBS Bank

- The overall industrial properties rental index has been on the uptrend since late- FY20, likely due to a lack of new supply as construction delays hit.
- Industrial properties rental index is currently 93.7, a level not seen since the end of FY16. The rising rental index has mostly been driven by the multiple-user factory and warehouse segments.
- The multiple-user and warehouse rental indices are currently 92.2 and 89.1 respectively. The last time both rental indices were this high was in late-FY16 to early-FY17.
- Single-user rental index is currently 97.8 and has been fluctuating at these levels over the past three to four years.
- Business parks rental index peaked at 113.3 at the beginning of FY20 and currently hovers around 112.1, a slight improvement from the previous quarter.

## Key Charts – Industrial Sector

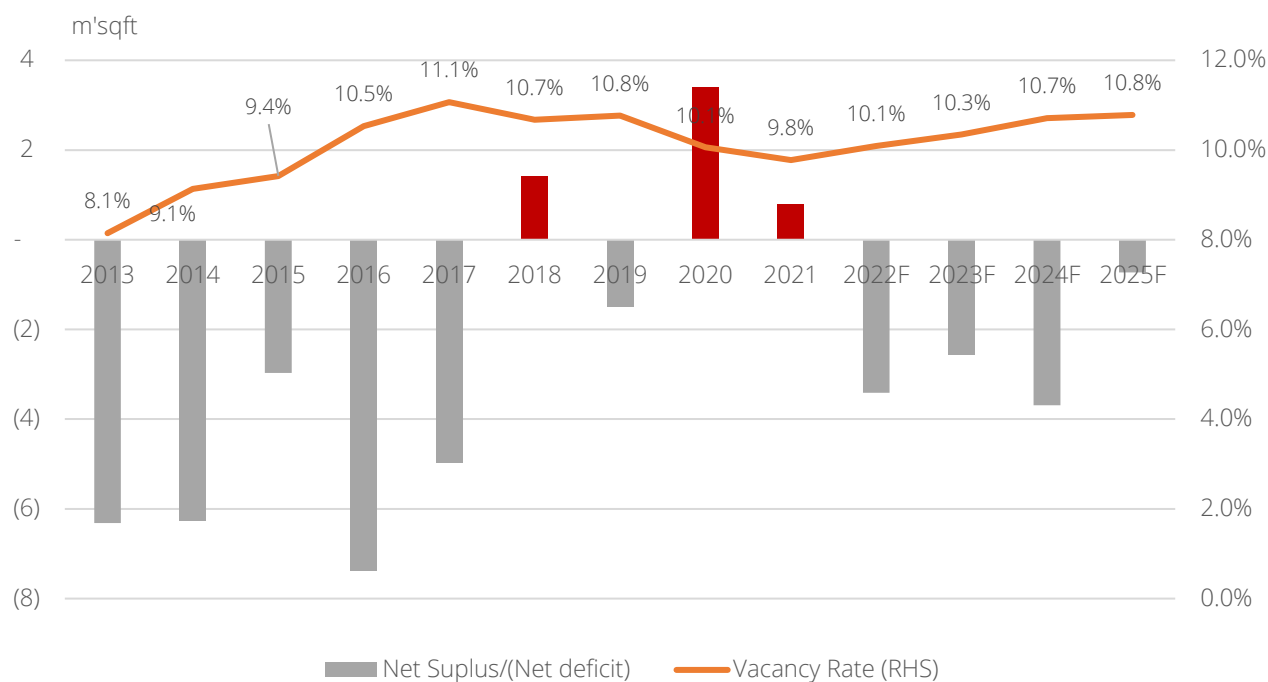
### Spike in new supply in 2022F due to rollover from the past two years



Source: JTC Corporation, DBS Bank

- A total of c.2.2m 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.1.6m sqm of new supply expected to hit the market over the next two quarters of FY22, c.43% 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.30% of the upcoming supply, and warehouses and business park spaces will contribute the remaining c.27% of the new stock.
- Take-up of multiple-user and warehouse spaces has been healthy so far in the first two quarters of FY22 with positive net absorption despite the delivery of new stock. However, the spike in supply for the rest of FY22 may put some pressure on occupancy and rental rates going forward.

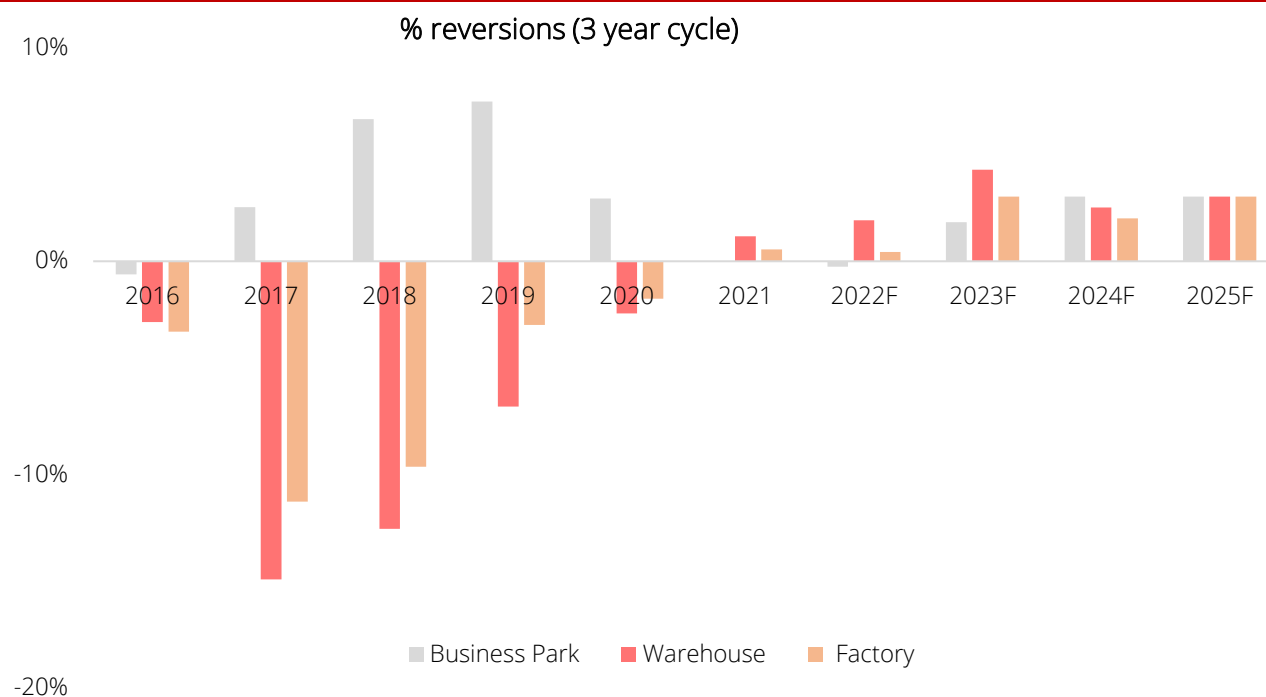
### Spike in new supply in 2022 is expected to lead to negative net absorption



Source: JTC Corporation, DBS Bank

- Net absorption in FY20 and FY21 were positive due to the delays 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, partially offset by the negative net absorption from the single-user factory and business park segments.
- With c.2.2m 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 healthy in the coming years

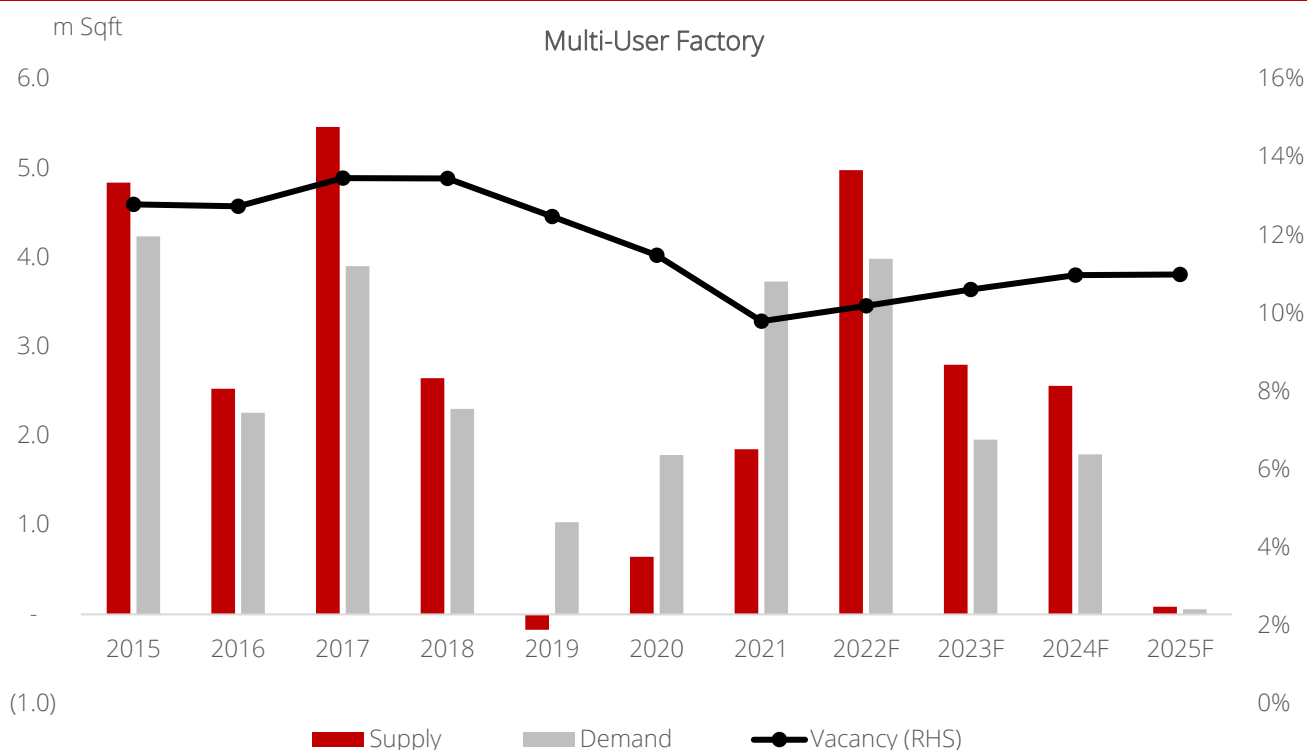


Source: JTC Corporation, Urban Redevelopment Authority, DBS Bank

- 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 was 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

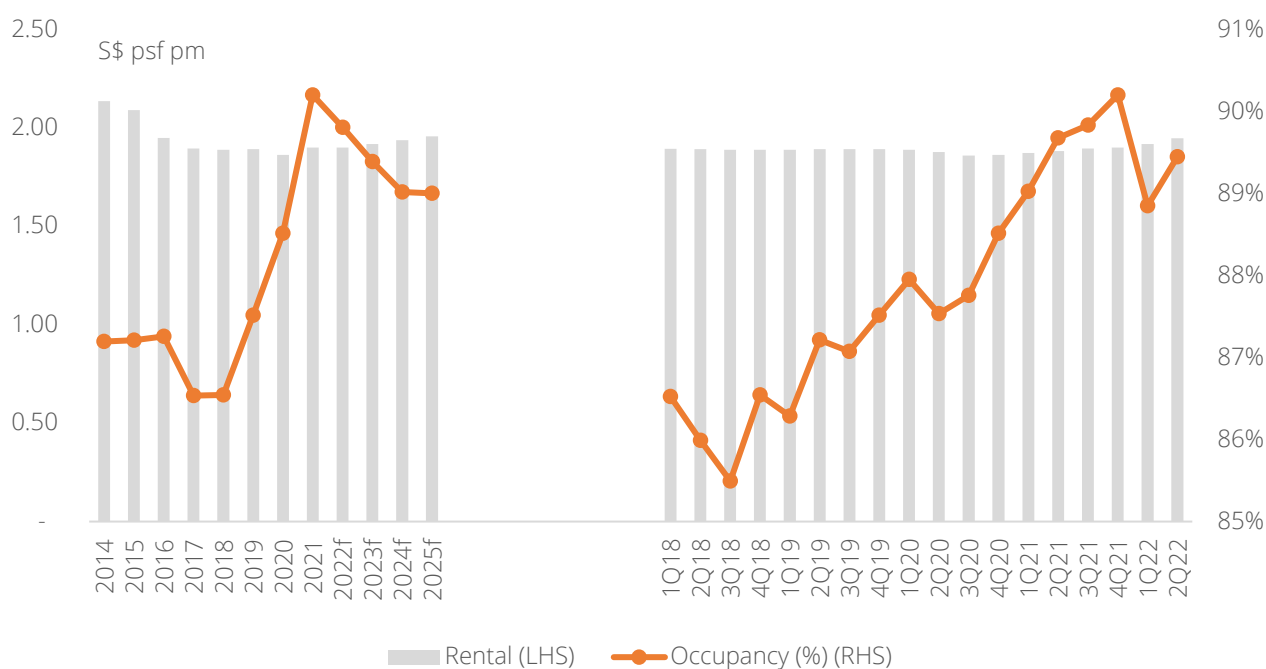
### Multi-user factory supply: Supply spike in 2022F due to construction delays in previous two years



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, the spike in supply for multiple-user factory space could likely lead to vacancy rates inching back up to c.11% in FY23 and FY24.
- 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: Surprise rebound in occupancy rate despite delivery of more stock

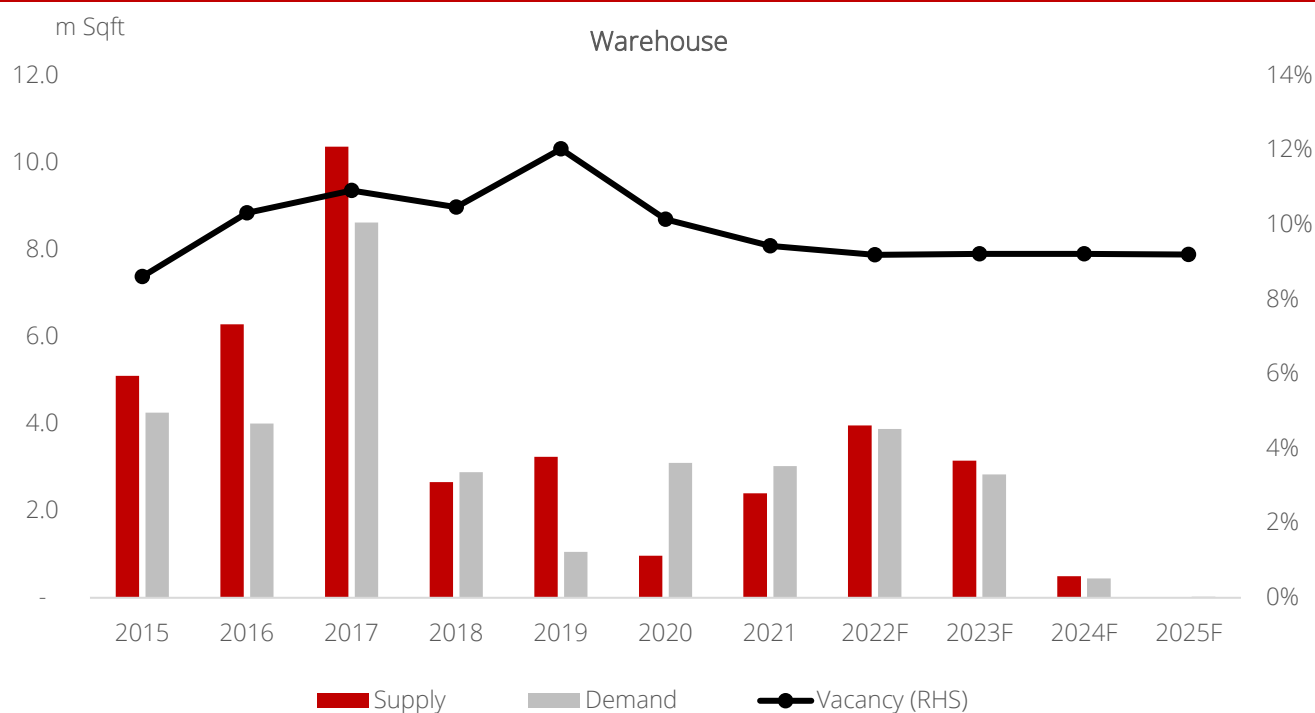


Source: JTC Corporation, Urban Redevelopment Authority, DBS Bank

- 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. However, 2Q22 reported a surprise rebound in occupancy rates as demand was stronger than expected.
- 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.

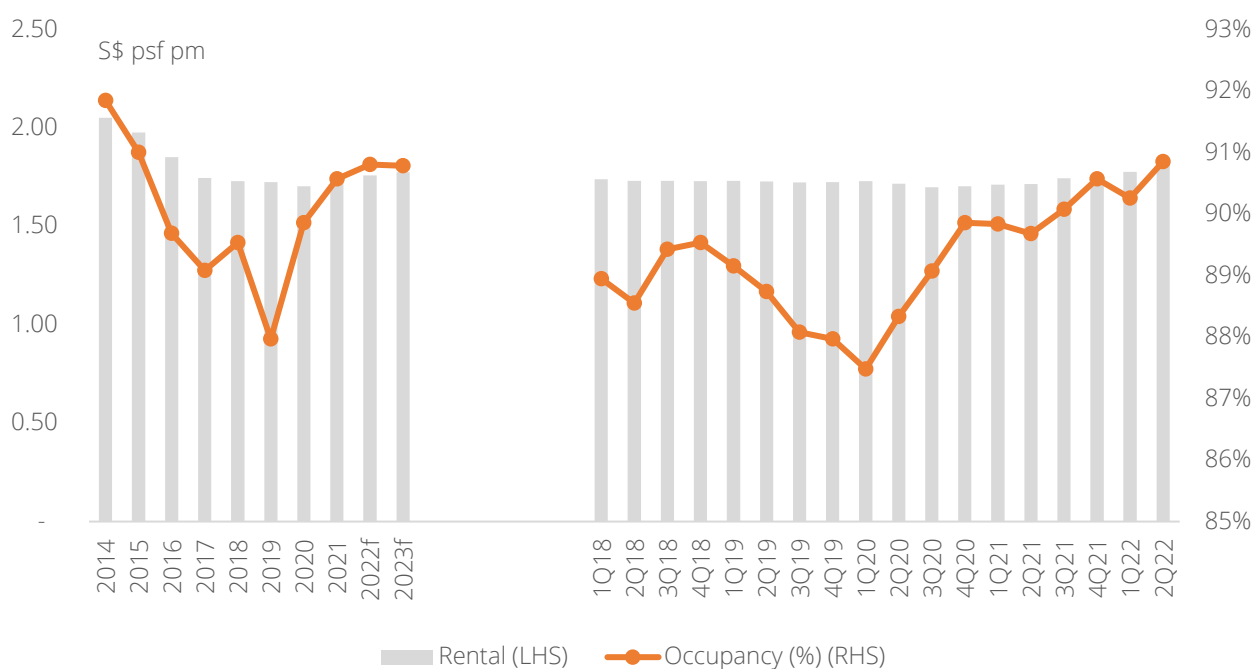


### Warehouses: Logistics sector driving demand for warehouses



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.

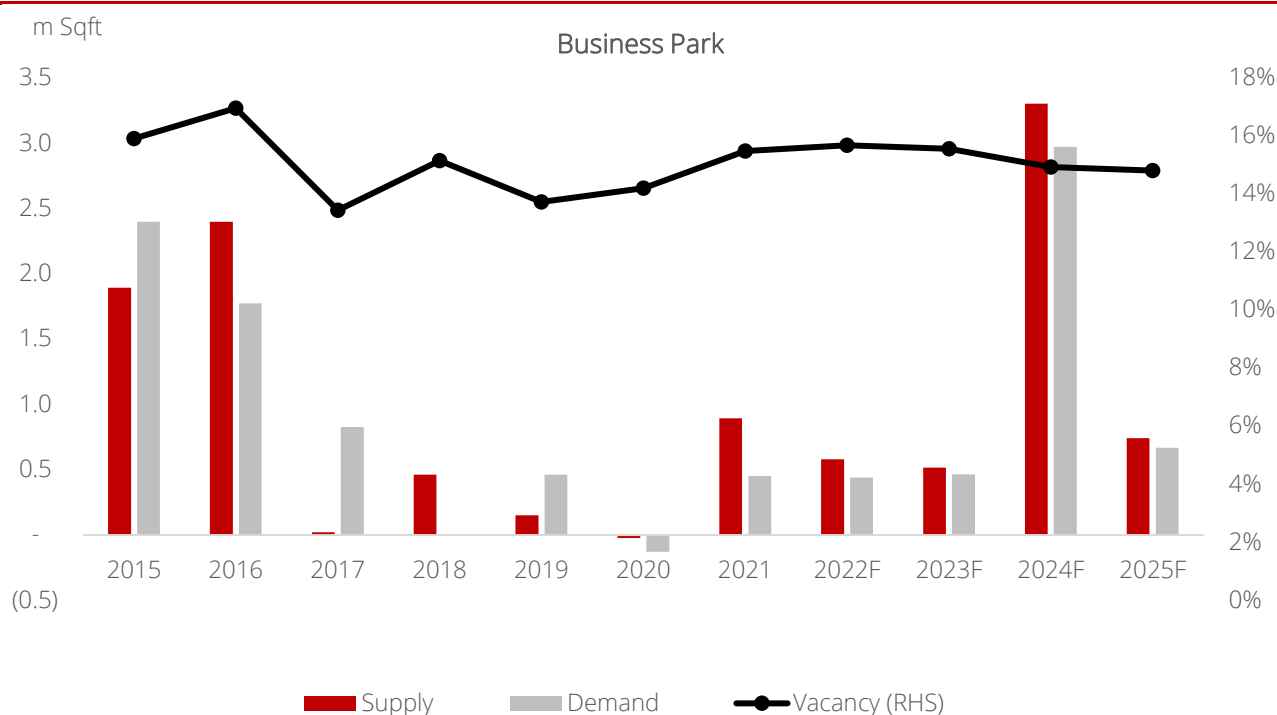
**Warehouses: Despite some new supply coming online, occupancy and rental rates are expected to remain robust**


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 was 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 and FY24, we believe that most 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 are favoured over the rest of the island, we believe these areas will outperform business parks in the other areas such as Jurong, Changi, and Tuas.

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