> *" Despite the slowing pace of growth, global manufacturers continue to set up new facilities, confident in Singapore as a long-term high-value-added location."*

NORISHIKIN KHALIK, DIRECTOR
OCCUPIER STRATEGY AND SOLUTIONS

Singapore Research

Industrial and Logistics

Q4 2022

MANUFACTURING TURNS PESSIMISTIC WITH INCREASED GLOBAL UNCERTAINTY

MARKET SNAPSHOT

2,037 LEASES
▼8.9% Q-O-Q | ▼6.1% Y-O-Y
NUMBER OF INDUSTRIAL TENANCIES[1]

S$715.1 MILLION
▼29.4% Q-O-Q | ▼36.1% Y-O-Y
TOTAL INDUSTRIAL SALES

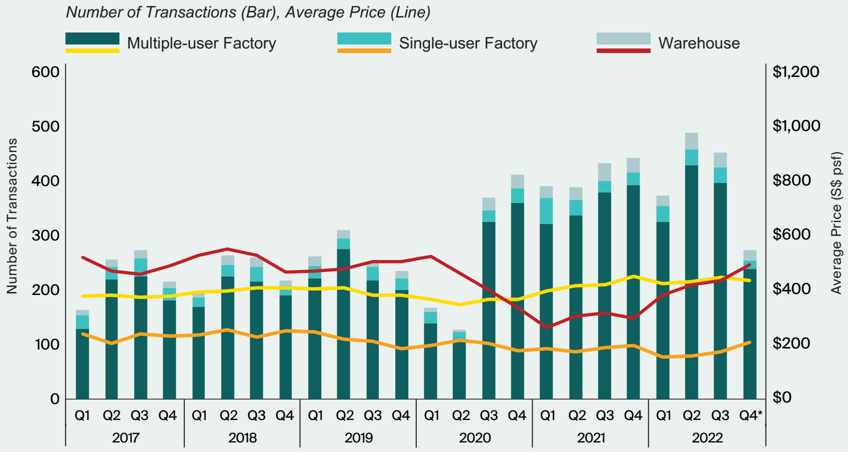
46.7 MILLION SF GFA
UPCOMING SUPPLY (Q4 2022 TO 2026)

Knight Frank Research
Reports are available at knightfrank.com.sg/research

Global economic slowdown dims Singapore business outlook

- In November 2022, the Ministry of Trade and Industry (MTI) announced that Singapore's Gross Domestic Product (GDP) is expected to come in at "about 3.5%" for the year 2022 and "0.5% to 2.5%" in 2023. Based on the Economic Survey, the Singapore economy expanded by 4.2% y-o-y in Q3 2022, a slight moderation from the previous 4.7% y-o-y growth in Q2. Nevertheless, as recession fears grow, the outlook has clouded business sentiments.
- After eight quarters of consecutive quarterly GDP growth in the manufacturing sector, with expansions above the 5% level, the increase in Q3 was markedly less pronounced and substantially slower at 1.4% while a negative 3.0% was recorded in Q4 2022. The drop in global demand for semiconductors impacted the electronics segment, and overall declines in the chemicals and biomedical clusters stymied growth in the second half of the year.
- As risks stemming from economic headwinds mount, business sentiments in the manufacturing sector remained negative for the period October 2022 to March 2023 according to the Singstat Q4 2022 Business Expectations Survey. In contrast to the previous period (July to December 2022), when a net weighted balance of 8% of manufacturing firms anticipated a less favourable business outlook, this percentage rose to 20% in the latest survey as the industry remains beset by continued supply chain disruptions and a prolonged Ukraine-Russia conflict. Accordingly, the contraction in the overall Singapore Purchasing Manager's Index (PMI) that began in September 2022 continued at 49.7 in October, 49.8 in November and 49.7 again in December 2022.

Exhibit 1: Industrial Sales Performance



Source: URA Realis, Knight Frank Research
Note: The average unit price is based on a four-quarter moving average of strata transactions.
*Q4 2022 data is based on transactions downloaded as at 30 December 2022

Fewer deals transacted in Q4

- Led by a hazier economic outlook and the dampening of business sentiments, industrial sales in the final quarter came up to S$715.1 million, the lowest since Q2 2020 when sales grossed some S$324.8 million due to the onset of the pandemic. Apart from the major sales of a two-storey ramp-up warehouse, Enterprise Logistics Centre, in Tuas for S$120.6 million in November, and 10 and 12 Mandai Estate for S$100 million in December, about 97.2% of the caveats lodged in Q4 2022 were deals below S$10 million. Industrial space owners are increasingly adopting a cautious stance, with expansion plans placed on hold until there is more clarity in the unfolding global economic situation. With the flow of material for production inconsistent, businesses related to electronics do not expect improvement until after mid-2023.
- While sales activity slowed, leasing transactions remained relatively stable in the months of October and November 2022 with businesses in general manufacturing, construction-related manufacturing, transport engineering and precision engineering continuing to expand cautiously. The median rent for multiple-user factories increased by 8.7% y-o-y to S$1.94 psf pm with 1,571 tenancies.

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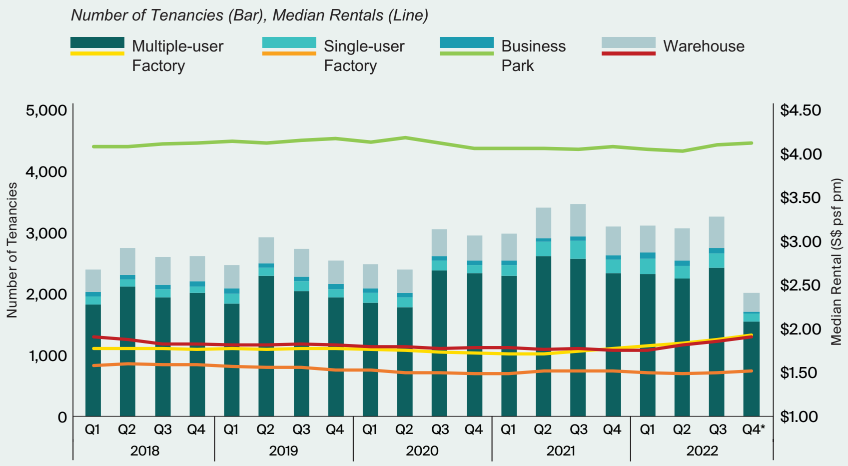
[1] The percentage changes for the total number of tenancies of all industrial space in October and November 2022 are based on a two-month comparison; q-o-q (against July and August 2022) and y-o-y (against October and November 2021).

Singapore draws high-value-added manufacturing despite headwinds

- Since the outbreak of the pandemic, Singapore regularly attracted fixed asset investment (FAI) into the manufacturing sector as global manufacturers looked for locations with political stability, an educated workforce and modern infrastructure. And although manufacturing FAI dropped significantly to S$411 million in Q3 2022 from the S$3.6 billion in Q2 2022, pharmaceutical facilities, semi-conductor production plants and data centres are being constructed in the industrial supply pipeline.
- During the quarter, semi-conductor companies Applied Materials announced a S$600 million 700,000 sf plant in Tampines Industrial Crescent to be ready in 2024 that would double its manufacturing presence in Singapore, while Soitec broke ground on a S$571 million extension to its Wafer Fab Park in Pasir Ris. Singapore will also have five new vaccine producing facilities, set up by pharmaceutical firms Thermo Fisher Scientific, Sanofi, BioNTech, Hilleman Laboratories and MSD. Additionally, data centre operators Digital Realty and Equinix were reported to be looking to expand in Singapore by applying to develop new data centres, after a moratorium issued in 2019 to pause the release of land for data centre use was lifted.

Exhibit 2: Industrial Leasing Volume and Median Rentals



Source: JTC J-Space, Knight Frank Research
Note: The median rent is based on a four-quarter moving average.
*Q4 2022 is based on October and November 2022 data as at end-December.

Market outlook

- The manufacturing and industrial real-estate outlook turned cautious in the latter half of 2022 due to rising interest rates, continued global supply disruptions and the challenging times faced for the technology sector. Even though the electronics sector is going through a rough patch, investments continue to flow into Singapore with the belief that growth will return and be sustainable in the long-run. These in turn create demand for local Singapore enterprises. As such, industrial prices and rents will remain stable with a marginal growth of 1% to 3% for the whole of 2023. In the logistics segment, where supply is tight, rents for quality warehouse space might increase by a higher 3% to 5% in the year ahead.

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