

Q1 2023

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A tough year ahead for manufacturing

► “Notwithstanding the sombre picture in the year ahead, investments in advanced manufacturing remain robust, poised to act as catalyst for the industrial sector once the business cycle turns around.”

NORISHIKIN KHALIK, DIRECTOR, OCCUPIER STRATEGY AND SOLUTIONS

SLOW GROWTH FORECASTED FOR 2023

Even though the Singapore economy expanded by 3.6% in 2022 according to the Ministry of Trade and Industry (MTI), a more pessimistic outlook can be expected in 2023 with Singapore's Gross Domestic Product (GDP) projected to grow at a muted “0.5% to 2.5%”.

According to the Singstat Q1 2023 Business Expectations Survey, business sentiments for the manufacturing sector remained negative for the period January to June 2023, with transport engineering the exception. In addition, the Monthly Manufacturing Performance Report released by the Economic Development Board (EDB) reported that Singapore's manufacturing output decreased 8.9% y-o-y in February 2023, with bio-medical manufacturing declining the most

substantially at 33.6%, resulting in slightly less demand for factory spaces for Q1 2023.

As a result, the overall Singapore Purchasing Manager's Index (PMI) in March 2023 contracted by a marginal 0.1 point to 49.9 after being in neutral territory at 50.0 in February. Prior to that, there were five consecutive months of contraction, while the electronics PMI has been under 50 for eight straight months.

However, new, innovative, and diverse manufacturing activities have started or are planning operations, injecting vitality amid the dim market outlook. These include, the Hyundai Motor Group Innovation Centre starting operations at Jurong in April 2023 with the production of electric vehicles, Singapore's first vehicle assembly plant in more than 40 years,

2,128 LEASES

Number of Industrial Tenancies¹
4.5% ▲ Q-O-Q | 0.6% ▼ Y-O-Y

S\$799.4 MILLION

Total Industrial Sales
11.6% ▼ Q-O-Q | 4.2% ▲ Y-O-Y

43.4 MILLION SF GFA

Upcoming Supply (2023 to 2027)

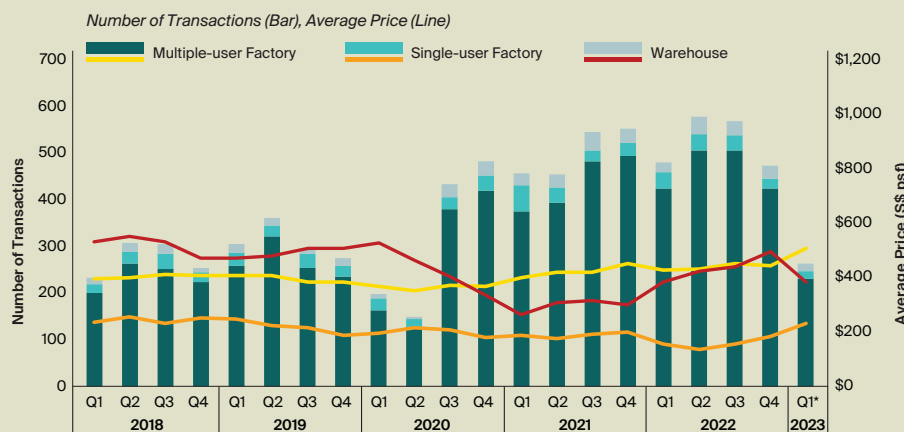
and a first-of-its-kind in Singapore glass recycling plant operated by Abraclean, repurposing glass waste into new products at an over 170,000 sf facility in Pioneer. Esco Aster, a cell-based meat manufacturer will set up an 80,000 sf facility in Changi, while Commonwealth Kokubu Logistics (CKL) broke ground on a S\$200 million 500,000 sf cold-chain food logistics facility at Jalan Besut. Both these facilities are expected to be ready in 2025.

LOWER SALES AND LEASING ACTIVITY IN Q1

Given the softening business expectations, the first quarter of 2023 closed with a total amount of S\$799.4 million in industrial sales, a decrease of 11.6% q-o-q. Nevertheless, there were several large deals such as the sale of four properties by Cycle & Carriage to M&G Real Estate for S\$333 million, and J'Forte Building that was sold to Boustead Industrial Fund for almost S\$100 million. Apart from these, about 97.3% of the caveats lodged during the quarter were for deals of S\$10 million or lower.

Similar to sales activity, the pace of leasing in January and February 2023 also moderated, although rents strengthened slightly across all property types. The islandwide leasing volume for multiple-user factories fell 1.5% q-o-q to 1,548 tenancies in January and February 2023 compared to the first two months of Q4 2022, but the median rent improved 4.7% q-o-q to S\$2.01 psf pm. While the electronics sector is going through a challenging period, demand remains undergirded by transport engineering and the recovering

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.

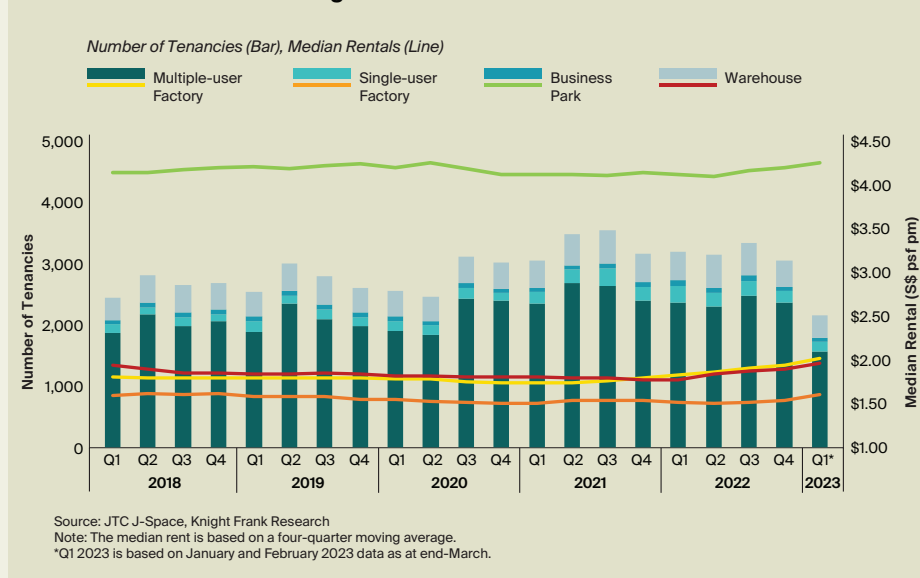
*Q1 2023 data is based on transactions downloaded as at 31 March 2023.

¹ The percentage changes for the total number of tenancies of all industrial space in January and February 2023 are based on a two-month comparison; q-o-q (against October and November 2022) and y-o-y (against January and February 2022).

travel sector, as well as for industrial activities that support the construction sector and the development of Singapore's sustainable energy infrastructure.

Business parks performed better compared to other industrial property types this quarter. Islandwide, the total number of business park leasing deals increased 66.7% to 70 tenancies for the period of January and February 2023, compared to the two-month period of October and November 2022, with a majority in the Central Region due to a strong preference for accessibility. Additionally, median rents of business parks increased 1.4% q-o-q to S\$4.22 psf pm, with some of the demand from life-sciences.

Exhibit 2: Industrial Leasing Volume and Median Rentals



RECORD FIXED ASSET INVESTMENT COMMITMENTS TO FACILITATE LONG-TERM GROWTH

In 2022, Singapore recorded a total of S\$22.5 billion in fixed asset investment (FAI) commitments, an increment of more than 90% compared to the S\$11.8 billion in 2021. Out of the total inflow, about 77.2% was for manufacturing with 66.8% contributed by the electronics sector.

Singapore's manufacturing sector was a key pillar of the economy during the pandemic, and now faces headwinds as a result of post-pandemic adjustments, inflation, ongoing supply chain disruptions as well as shortened business cycles in a general cloud of disruptive uncertainty. Nonetheless, the record FAI investments in 2022 particularly for manufacturing demonstrates the confidence and faith that technologically advanced and globally mobile manufacturers have in Singapore's stability, educated workforce and modern infrastructure, setting up the platform for a compelling rebound once this business cycle turns and certainty returns to the global economy.

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The record volume of FAI investments last year should provide an uplift in Singapore's industrial eco-system, especially in electronics with trending digitalisation, 5G and artificial intelligence driving the creation of devices and hardware that require semiconductors.

MARKET OUTLOOK

The outlook for industrial and logistics will remain stable with cautious price and rental growth of 1% to 3% for most industrial property types in 2023, despite the deteriorating business sentiment. Due to tight supply, quality logistics spaces can be expected to increase by a greater 3% to 5%.

Furthermore, with China's reopening of borders, Chinese manufacturers could also be looking at alternative secure locations outside their home borders. With an aim of geographical diversification in order to mitigate the risks of production in an increasingly uncertain world, Singapore is an attractive alternative for companies to establish production facilities and headquarter functions for the region.

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