MARKET IN MINUTES

Savills Research

Industrial

Rental growth across all segments

Gradual recovery expected in the industrial sector.

- Leasing activity reached a peak in Q3/2021, with total leasing volume rising 13.9% year-on-year (YoY) to 3,423.
- Savills' average monthly rent for prime multiple-user factories registered a third consecutive quarterly increase of 1.7% quarter-on-quarter (QoQ) to S$1.77 per sq ft. Almost similar to what transpired in Q2/2021, Savills' average monthly rent for prime warehouse and logistics properties inched up by 0.3% QoQ to S$1.44 per sq ft.
- Sales volume increased by 3.7% QoQ to 472, bringing the total number of caveats to 1,387 for the first three quarters. This has already surpassed the annual average of 1,206 for the last three years.
- Savills' basket of industrial properties showed that prices for freehold properties increased at a faster rate of 0.6% QoQ to S$710 per sq ft in Q3/2021.
- From Savills' basket of industrial properties, 60-year leasehold prices rose by 1.0% QoQ to S$438 per sq ft. Compared with Q2/2021, Savills' basket of leasehold industrial properties showed that prices for 30-year leasehold properties remained almost unchanged with a 0.1% rise to S$292 per sq ft in Q3.
- Rents in the older business park clusters showed signs of bottoming out, with Savills' standard business park properties monthly rents recovering by 0.5% QoQ to S$3.99 per sq ft in Q3. Savills' prime business park monthly rents went up by 0.7% QoQ to S$5.80 per sq ft in Q3.
- The average monthly rent for Savills' high-spec industrial basket rose by 0.8% QoQ to S$3.51 per sq ft.
- Strong growth in the biomedical and digital transformation industries, together with global supply chain bottlenecks are expected to increase rents, prices and occupancy rates in industrial, logistics and prime business park space in 2022.

"The growth of emerging industries together with global supply chain bottlenecks are buttressing the sector."

ALAN CHEONG, SAVILLS RESEARCH

Savills team

Please contact us for further information

SINGAPORE

Christopher J Marriott
CEO, Southeast Asia
+65 6415 3888
cjmarriott@savills.asia

Sharon Teo
Managing Director
Singapore
+65 6415 3288
sharon.teo@savills.com.sg

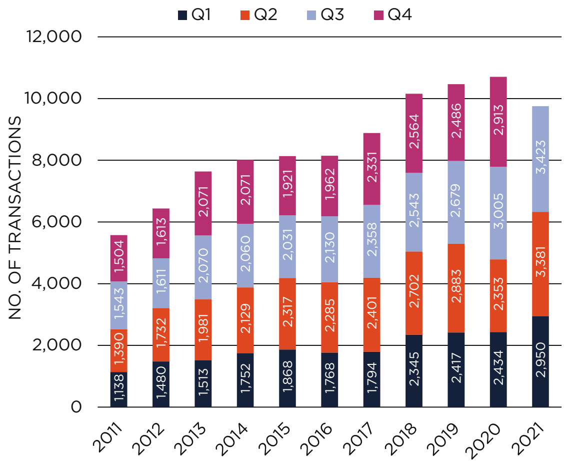
RESEARCH

Alan Cheong
Executive Director
Singapore
+65 6415 3641
alan.cheong@savills.com.sg

Simon Smith
Regional Head of Research & Consultancy, Asia Pacific
+852 2842 4573
ssmith@savills.com.hk

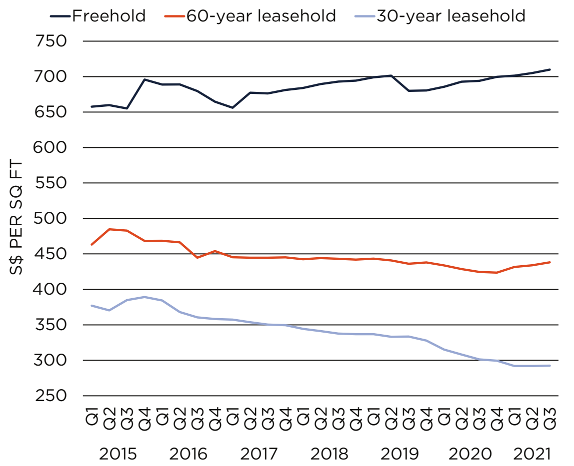
MCI (P) No. 037/03/2021
Company Reg No. 198703410D

GRAPH 1: Factory and Warehouse Leasing Volumes, 2011 to Q3/2021



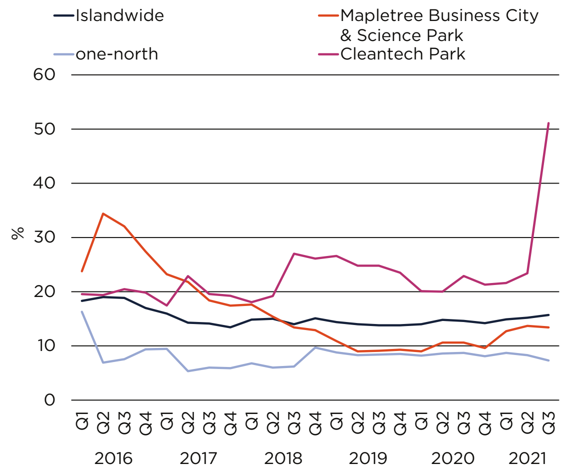
Source JTC, Savills Research & Consultancy

GRAPH 2: Prices of Upper-Storey Strata Factory and Warehouse Units, Q1/2015 to Q3/2021



Source JTC, Savills Research & Consultancy

GRAPH 3: Business Park Space Vacancy Rates, 2016 to Q3/2021



Source JTC, Savills Research & Consultancy

MACROECONOMIC OVERVIEW

According to advanced estimates released by the government, Singapore's economy expanded 6.5% YoY in Q3/2021, moderating from the strong rebound of 15.2% in Q2. For the quarter in review, even though all industries registered YoY growth, momentum eased across the board. The manufacturing sector grew by 7.5% YoY in Q3, down from 18.0% YoY in Q2. The electronics and precision engineering clusters remained the main drivers, supported by sustained global demand for semiconductors and semiconductor equipment.

The growth in Singapore's manufacturing activity also slowed slightly in August and September, with the Purchasing Manager's Index (PMI) falling from 51.0 in July to 50.8 in September. Nonetheless, Singapore's factory sector has remained in positive territory for 15 consecutive months, owing to the resilient electronics sector. Singapore exports rose for a 10th straight month in September, up by 12.3% from a year ago. The growth was led by the petrochemicals, specialised machinery and pharmaceutical segments.

RENTAL MARKET

The leasing market saw its highest level of activity in Q3/2021, with total leasing volume[1] rising 13.9% YoY to 3,423. The number of leases increased across all segments, especially for single-user factory (+77.8% YoY) and warehouse spaces (+21.7% YoY). Even though there was greater buying interest for single-user factory facilities for own use, leasing deals continued to climb in Q3 as there is still some mismatch between buyers and sellers' price expectations. The warehouse segment also saw strong take-up from industries such as ecommerce, electronics and third-party logistics. Despite a slower growth (+8.1% YoY) compared with other segments, the number of tenancies for multiple-user factory units is still on the high side. This was largely led by digital and creative businesses which are expanding their real estate footprint, as well as small and medium-sized enterprises in agricultural, plastic and metal manufacturing businesses.

In terms of physical occupation, arising from new completions in the West Planning Region, the vacancy rate for single-user factory space rose 0.2 of a percentage point (ppt) QoQ to 9.3% in Q3. However, with a relatively stable net take-up of 1.1 million sq ft, vacancy for multiple-user factories slipped by 0.1 of a ppt QoQ to 10.2%, the lowest since Q3/2013. For the warehouse segment, occupier demand in the West Planning Region remained healthy, with larger firms taking up significant space in Tuas due to a lack of ready-built ramp-up facilities in other parts of the island. Despite an addition of 111,000 sq ft of new warehouse stock in the region, vacancy in the West Planning Region managed to ease 0.3 of a ppt QoQ to 9.8% in Q3. The vacancy rate in the East Planning Region also fell 1.1 ppt QoQ to 7.8% in Q3, the lowest since Q1/2016. This was attributed to strong take-up from warehousing and logistics needs arising from ecommerce and consolidation of supply chains.

Compared with Q2, industrial rents continued to post positive growth in Q3/2021. Savills' average monthly rent for prime multiple-user factories[2] registered a third consecutive quarterly increase of 1.7% QoQ to S$1.77 per sq ft. After witnessing no growth in Q2, Savills' average monthly rent for prime warehouse and logistics[3] properties inched up by 0.3% QoQ to S$1.44 per sq ft, reaching its highest level since Q3/2014.

SALES MARKET

After some signs of slowing down in the first half of this year, strata industrial sales activity started to pick up momentum in Q3. Sales volume[4] increased by 3.7% QoQ to 472, bringing the total number of caveats to 1,387 over the first three quarters. This has already surpassed the annual average of 1,206 for the last three years. The sales growth could be backed by buyers who are keen to purchase private properties as they do not have to go through stringent application procedures with JTC when buying public industrial properties. Moreover, they are also looking for capital appreciation potential from private property acquisition as these properties generally have longer lease tenures than JTC properties, with some even being freehold.

Sales activity for multiple-user factory and warehouse spaces continued to pick up in Q3, rising by 4.6% and 35.7% QoQ respectively. While demand in the Central and North Planning Region stayed strong, there was an uptick in sales demand for multiple-user factory in the West Planning Region after a decline in the previous quarter. For the warehouse segment, most users within the West Planning Region tend to lease as they usually require large ramp-up facilities which are limited in the sales market. As such, the majority of the warehouse sales demand came from the Central Planning Region where smaller warehouse spaces are required for last mile delivery services. Interested buyers for single-user factories are still on the lookout, but very few translated into actual sales because of the price gap between buyers and sellers. As such, the sales volume for single-user factory spaces continued to fall by 34.4% QoQ in Q3.

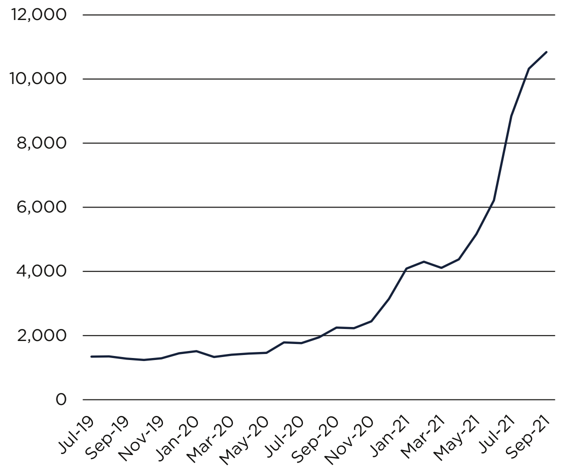
1 Based on JTC's rental data (excluding business park spaces, only comprises single- and multiple-user factory as well as warehouse spaces).

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$1.40 per sq ft.

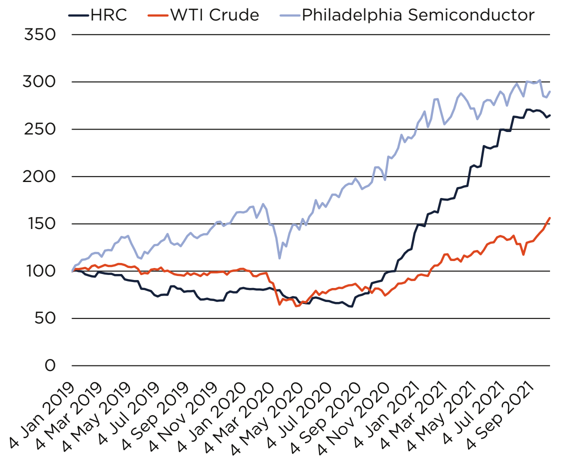
4 Based on JTC's sales caveat data, downloaded on 15 November 2021.

GRAPH 4: 40' Container Global Freight Rate in USD, 2019 to September 2021



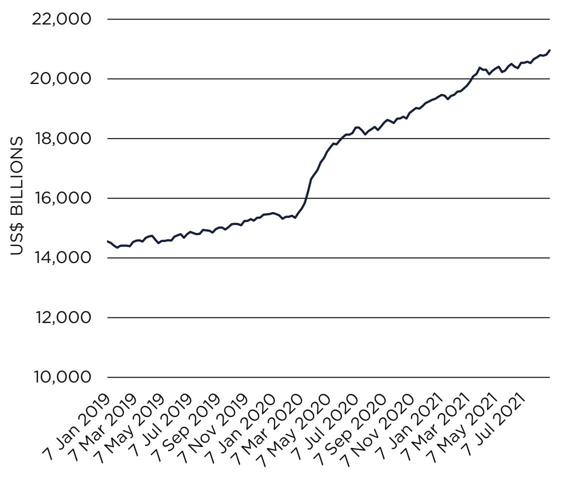
Source Statista; Savills Research & Consultancy

GRAPH 5: A Sample of Prices of Major Industrial Production Inputs, 2019 to 15 October 2021



Source Daiwa Securities, Bloomberg, Savills Research & Consultancy

GRAPH 6: US Weekly M2 Money Supply, 2019 to 6 September 2021



Source US Federal Reserve, Savills Research & Consultancy

While most sellers of freehold properties are holding firm on asking prices, some buyers are beginning to give in. As a result, Savills' basket of leasehold industrial properties showed that prices for freehold properties increased at a faster rate of 0.6% QoQ to S$710 per sq ft in Q3. From Savills' basket of industrial properties, 60-year leasehold prices rose by 1.0% QoQ to S$438 per sq ft. For the quarter in review, this was because sellers are more willing to negotiate prices before their leases deplete further, and buyers are looking for good deals with reasonable remaining leases. Compared with Q2, Savills' basket of leasehold industrial properties showed that prices for 30-year leasehold properties remained stable with a 0.1% increase to S$292 per sq ft in Q3.

BUSINESS PARK AND HIGH-SPEC INDUSTRIAL

Arising from the tight supply and steady demand in the Mapletree Business City and one-north regions, the vacancy level for business park space in the Central Planning Region eased by 0.7 of a ppt in Q2 to 10.2% in Q3. As a result of improving occupancy levels, prospective tenants are accepting higher rents for these prime locations, driving Savills' prime business park[5] monthly rents up by 0.7% QoQ to S$5.80 per sq ft in Q3. After registering a record high vacancy level of 18.7% in Q2 due to a dip in demand in Changi Business Park, vacancy in the East Planning Region remained almost unchanged at 18.6% in Q3. On the other hand, vacancy in the West Planning Region spiked from 25.1% in Q2 to 30.0% in Q3. Even though vacancy for International Business Park only saw a marginal increase of 0.2 of a ppt QoQ to 25.5%, the addition of new stock from the newly completed Cleantech Three put pressure on the overall occupancy in the West. Nonetheless, rents in the older business park clusters are starting to show signs of bottoming out, with Savills' standard business park properties[6] monthly rents recovering by 0.5% QoQ to S$3.99 per sq ft in Q3.

Overall sentiment remained mixed in the high-spec industrial leasing market. In the face of the accelerated pace of digital transformation, there is still demand from technology firms, as well as creative agencies which support ecommerce activity. However, as Grade B office rents have reached a level where the rental gap between them and prime high-spec industrial spaces have narrowed considerably, more businesses that need quality spaces with a central location to maintain their corporate image are considering moving to Grade B offices. While landlords of prime high-spec industrial spaces who have maintained their rental expectations (high-S$4 psf per month) faced slow take-up, owners of less prime or older high-spec industrial spaces who are willing to offer more affordable rents (around S$3 psf per month) continue to register good take-up. Nevertheless, selected developments have been attracting healthy demand and driving overall rental growth. In the reviewed quarter, the average monthly rent for Savills' high-spec industrial basket[7] went up by 0.8% QoQ to S$3.51 per sq ft. Having inserted the recently completed 351 on Braddell development into Savills' high-spec industrial basket, monthly rents increased by 1.7% QoQ to S$3.54 per sq ft in Q3.

OUTLOOK

The outlook of the industrial and logistics market will be impacted by micro and macro events. The former involves emerging industries which are taking root here. Notwithstanding the surge in supply in 2022, the overall occupancy rate is likely to stay unchanged as the increase could be matched by strong demand from these industries. Especially with a greater emphasis on healthcare, technology and digital transformation, new economy sectors such as biomedical sciences, digital and technology, continue to expand in Singapore. The vacancy level in areas like one-north are likely to remain tight with demand coming from companies engaged in technology and biomedical research and development (R&D). This has not gone unnoticed amongst landlords and 1 Science Park Drive is set to be redeveloped into a life science and innovation campus. Scheduled to complete by Q2/2025, the new campus will comprise three interconnected Grade 'A' buildings with over 1.2 million sq ft of new business park space. Around 860,000 sq ft, accounting for 71% of the total business park space, will be allocated for wet labs to accommodate biomedical R&D activities. Going forward, rents for prime business park space are likely to be lifted upon completion of such rejuvenation of older business park developments.

On the macro front, while the disruptions wrought by SARs-CoV-2 continue to afflict the office, retail and hospitality sectors, industrial and warehousing continue to push against the tide of negativism. In fact, the uncertainty levels across many of the economic sectors are benefitting these sectors. In the quarters ahead, the ramping up of economic activity in major commodity producing and manufacturing export powerhouses will continue to be plagued by supply chains problems. The supply side struggles to sate the demand for consumer goods which are continuing to break records as developed economies begin unlocking themselves from a prolonged period of

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.

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.

prohibition. During the period of pandemic isolation, consumers got addicted to ecommerce, spurring demand for consumption goods.

Within the supply chain industry, issues ranged from crews of container ships suffering from burn out syndrome having remained for months onboard container carriers and prevented from on-shore visits due to strict pandemic measures; major ports becoming choke points as they lacked the efficiencies of the Amazonian order taking-distribution process during a time when ecommerce is experiencing exponential growth; modern container ships are now two or three times bigger than they were 10 to 15 years ago, creating a chokepoint during offloading; a shortage of truck drivers and a bunching up of containers in inland depots or stacking up at cargo ports. This year's Black Friday (November 26) and the year-end festive season will compound the COVID induced logjam further. That is not the end of the story. The rollout of new consumer products has driven up the demand for semiconductors. Before the start of the pandemic, the world was already in a tech boom. The strict lockdown measures in 2020 and 2021 threw both supply and demand badly off kilter.

Across the board, primary and secondary inputs to the manufacturing process are seeing sharp increases in prices. Graphs 4 and 5 show that from the shipping cost of a 40-foot container to semiconductor prices, since 2019, all have increased substantially. Even crude oil prices are about 50% higher than they were at the start of 2019. For gains like wheat and corn, although global prices are not at record levels, they are closing in on their respective seven to eight-year highs.

Today, both supply chain and semiconductor industry experts appear to hold the view that chaos in their respective markets will only be resolved by early-2023. The upshot of this logjam is inflation and how long this will last will have a direct impact on our industrial and warehousing sectors. Inflation is given a boost when in the US, money supply growth is still at rates significantly higher than pre-pandemic times (please refer to Graph 6). Also, consumer credit there has been rising strongly on an annual basis with no signs of a let up in demand because salaries in Q3/2021 increased by 1.5% QoQ, the highest in 20 years.

Nevertheless, it must be added that while demand in developed economies is growing, the constraints are building to a point where it has begun to hinder expansion. This would cap global GDP growth. However, even if economic growth tapers, it may not impact the industrial and logistics sector globally because the need to stockpile has become paramount. The same is true for Singapore but the reason has a slight twist. The litany of problems confronting major economies originated from the large production and end-demand countries, for example US consumer demand shot up due to pent up demand as states started to loosen movement restrictions, ports and semiconductor plants shut down during the pandemic etc. Their impact on Singapore is one where businesses supply to the domestic market needs to take account of the uncertainties surrounding supply and prices. The need to smooth over supply hiccups and combat inflation should therefore lead to greater demand for warehouse space.

If inflation becomes endemic, besides hedging against future price increases by stockpiling merchandise, expect businesses to also attempt to profiteer by building in anticipatory price increases. However, for the next one to two quarters, the impact of inflation on rents is not one-one because the ability of tenants to pay much higher rents is still weak. It is weak because the delays in meeting production or construction deadlines plus rises in material prices cannot be fully passed through to the customer because many are caught in contracts signed during pre-COVID days which have limited scope to adjust for cost variations. Beyond that, businesses which made it through these tough times, will be those which are stronger and have a better ability to pay higher rents.

On the capital markets side, sellers may withdraw from the market as they may find replacement premises coming at a higher price or rent and this would move prices of industrial and warehousing space up. In view of the dynamics surrounding the rental and capital markets, we are forecasting rents in 2022 to rise by 2.0% to 3.0% with capital values rising between 3.0% to 5.0%. Warehousing space would see rental increases clustered around the higher end of the range and buildings with longer land lease terms remaining experiencing greater price appreciation.

In summary, because both micro and macro forces are looking down favourably on the industrial and logistics sectors, the downside risk in 2022 is reduced considerably. Table 1 shows the forecast of rents for the market.

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
2021F	2.5% to 4.5%	1.0% to 3.0%
2022F	1.0% to 2.0%	1.0% to 3.0%

Source Savills Research & Consultancy