MARKET IN MINUTES
Savills Research

Industrial

Leasing momentum remains strong

Rental growth for business park and high-spec industrial was limited by subdued demand in older clusters and price-sensitive prospects.

- Owing to the strong leasing interest for factory and warehouse spaces, the industrial leasing scene was more active in Q2/2021. Leasing volume almost doubled from a year ago to 3,381 transactions.
- Savills' average monthly rent for prime multiple-user factories increased by 1.4% quarter-on-quarter (QoQ) to S$1.74 per sq ft in Q2, while that for prime warehouse and logistics properties remained flat at S$1.44 per sq ft.
- Even though total sales volume of 419 in Q2/2020 was significantly more than 149 deals transacted in Q2/2020, the volatility in numbers is reducing as the manufacturing economy slowly regains functionality.
- Average prices for Savills' basket of freehold properties increased 0.6% QoQ to S$705 per sq ft in Q2/2021.
- Savills' basket of leasehold industrial properties showed that prices for 60-year leasehold properties continued trending up with a 0.5% QoQ growth to S$434 per sq ft, while that for 30-year leasehold properties ended a six-quarter decline with a 0.1% QoQ rise to S$292 per sq ft.
- The average monthly rent of Savills' basket of prime business park properties remained unchanged at S$5.76 per sq ft while that of standard business park properties inched up by 0.1% QoQ to S$3.97 per sq ft in Q2/2021.
- The average monthly rent for Savills' high-spec industrial basket stabilised with a -0.1% QoQ growth to S$3.48 per sq ft in Q2/2021.
- In view of the recovery in the multiple-user factory market, we have revised our rental forecast from -3% to 0% to 2.5%. For warehouse and logistics space, we maintain our 1% to 3% forecast range.

"The sector has tracked a consistent storyline since the pandemic begun, making it easier to extrapolate trends."

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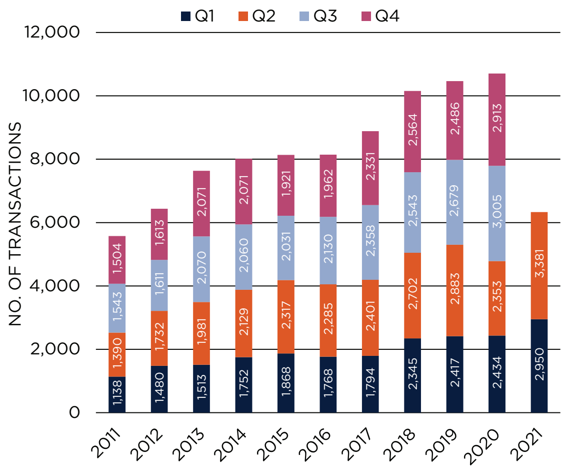
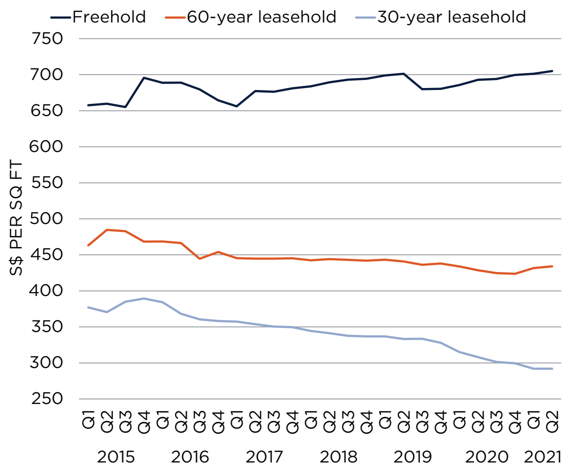
GRAPH 1: Factory And Warehouse Leasing Volumes, 2011 to Q2/2021



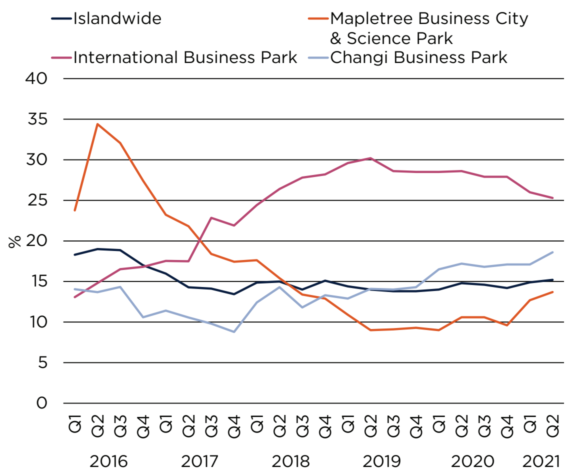
Source JTC, Savills Research & Consultancy

GRAPH 2: Prices Of Upper-Storey Strata Factory And Warehouse Units, Q1/2015 to Q2/2021



Source JTC, Savills Research & Consultancy

GRAPH 3: Business Park Space Vacancy Rates, 2016 to Q2/2021



Source JTC, Savills Research & Consultancy

MACROECONOMIC OVERVIEW

Singapore's economy rebounded strongly by 14.7% year-on-year (YoY) in Q2/2021. This was largely attributed to the low base in Q2/2020 when large parts of the economy were shut to curb the spread of the pandemic. Compared with the preceding quarter, the economy contracted by 1.8% in Q2/2021, ending three consecutive quarters of growth since Q3/2020. The similar trend was also observed in the manufacturing sector. Although the sector extended its three-quarter expansion with a 17.7% YoY growth in Q2/2021, it nevertheless contracted by 2.5% from the previous quarter. This marked a significant pullback from its 11.5% quarterly growth in Q1/2021.

Nonetheless, Singapore's overall manufacturing sentiment remained buoyant in Q2/2021, with June's Purchasing Manager's Index (PMI) staying in expansionary territory for the 12th straight month (PMI: 50.8). Despite a slower rate of growth in May due to the impact of tighter COVID-19 measures on the sector, momentum in factory activity remained strong in Q2. In the same quarter, Singapore exports continued its growth trend from March. Coupled with the improving global economic backdrop and global demand for semiconductor-related products, Singapore's non-oil domestic exports (NODX) rose at a faster pace of 15.9% in June.

RENTAL MARKET

Owing to the strong leasing interest for factory and warehouse spaces, the industrial leasing scene was more active in Q2/2021. Leasing volume[1] was up 43.7% YoY to 3,381, far surpassing the quarterly average of around 2,400 transactions for the last five years. From our focal group discussions with industrial market specialists, for factory space, it appears that more companies still prefer leasing to owning, especially the multinational corporations (MNCs). On the other hand, for warehousing space users, there is a mixed preference amongst users with sales and leasing demand evenly balanced. In Q2/2021, leases for multiple-user and single-user factories increased by 46.6% YoY and 43.0% YoY respectively, while that for warehouses went up by 30.3% YoY.

Arising from strong leasing demand, vacancy rate of multiple-user factory fell 0.7 of a percentage point (ppt) QoQ to 10.3% in Q2/2021, the lowest since Q3/2013. Despite an improvement in net demand, vacancy for single-user factory and warehouse segments remained relatively flat from the previous quarter as new supply outpaced net demand. As the construction industry slowly overcome the delays caused by the pandemic, more new completions come to the fore with some major projects such as Cogent Jurong Island Logistics Hub and Digital Loyang II data centre being completed in Q2. Consequently, this led to downward pressures on the overall occupancy level for the two segments.

Industrial rents trended along with the demand across respective segments. While rents for multiple-user factories were recovering after a year of decline from Q4/2019, that for warehouses were starting to stabilise after rising for the last few quarters. In Q2/2021, JTC's rental index for multiple-user factories rose at a faster pace at 1.0% QoQ. Similarly, Savills' average monthly rent for prime multiple-user factories[2] increased by 1.4% QoQ to S$1.74 per sq ft in Q2, compared to the 1.1% QoQ increase in Q1. On the other hand, warehouse rental growth continued to slow in Q2, with JTC's rental indices inching up 0.2% QoQ. From Savills' basket of industrial properties, the average monthly rent for prime warehouse and logistics[3] properties remained flat at S$1.44 per sq ft.

SALES MARKET

Singapore's strata industrial market started to quieten down since early this year. Even though the total sales volume of 419 in Q2/2020 was significantly more than 149 deals transacted in Q2/2020, the pace of sales growth slowed down in 1H/2021. Notably, number of sales caveats lodged for multiple-user factories declined from the peak in Q4/2020. Many industrialists, particularly the Small and Medium-Sized Enterprises (SMEs), are looking to acquire multiple-user factory spaces at a favourable price. Although some sellers are now more realistic with their price expectations, most buyers expect greater price reduction amid pandemic-led disruptions. As a result of a mismatch in price expectations, sellers rather keep the property for stable revenue income than to dispose at a huge price discount.

For the warehouse segment, sales volume had remained stable since Q3/2020, the quarter when the number of deals surged after the economy unlocked a notch. There is still strong buying interest from both end-users and investors who are looking for industrial assets including logistics warehouse and cold storage facilities. Coupled with limited supply available in the market, investors see warehouse logistics as one of the attractive asset classes, which have a strong potential in the long run and appeal to users from various industries.

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.

For the quarter in review, we observed that some end-users who operate their business in large warehouse facilities are looking for suitable warehouse properties in the outskirts as part of their decentralisation plan, instead of incurring high long-term rental costs.

Industrial prices in Q2/2021 continued to increase on the back of healthy sales level. From Savills' basket of industrial properties[4], prices for freehold properties increased at a faster rate at 0.6% QoQ to S$705 per sq ft in Q2/2021. Savills' basket of leasehold industrial properties showed that prices for 60-year leasehold properties continued trending up with a 0.5% QoQ uptick to S$434 per sq ft, while that for 30-year leasehold properties ended a six-quarter decline with a 0.1% QoQ growth to S$292 per sq ft.

BUSINESS PARK AND HIGH-SPEC INDUSTRIAL

The take-up for business park space was uneven across locations in Q2/2021. Notably, occupier demand in older clusters such as Changi Business Park remained weak, driving the vacancy level in East Planning Region up by 1.0 ppt QoQ to a record high of 18.7%. Even though the net take-up in prime areas remained at healthy levels, the vacancy level in the Central Planning Region (where the more sought-after Business Parks are located) inched up by 0.2 of a ppt QoQ to 10.9%, the highest since Q4/2018. This was attributed to the recent completions in one-north, including Razer SEA HQ and Wilmar International, which are likely not fully physically occupied yet. As the overall rental growth for business parks were limited by the subdued demand in the older clusters, JTC's rental index for business park stayed flat in Q2/2021. This was in line with the direction for average monthly rent in Savills' basket of prime business park properties[5] and standard business park properties[6]. They remained unchanged at S$5.76 per sq ft and inched up by 0.1% QoQ to S$3.97 per sq ft respectively.

In Q2/2021, the occupier demand for high-spec industrial segment showed some signs of picking up and this could be one of the factors supporting the occupancy level of multiple-user factories (high-spec industrial buildings are a subset of multiple-user factories). Landlords of high-spec industrial space continued to see leasing interest from fintech firms, new IT start-up companies and creative agencies. However, as prospective tenants are still quite cost conscious, well-maintained older developments are competitors to these buildings. Consequently, landlords have been unable to raise their rents too much as prospective tenants are price sensitive and substitute spaces are available. As such, the average monthly rent for Savills' high-spec industrial basket[7] remained rather flat with a -0.1% QoQ growth to S$3.48 per sq ft in Q2/2021.

OUTLOOK

Unlike the other sectors of the property market, the industrial and warehousing sectors have been performing in synch with exigencies that came about due to the pandemic. While the landscape for the other sectors of the market have been evolving since the start of the pandemic, the industrial and warehousing market has in fact maintained a consistent storyline, one that is intuitive in nature and thus extrapolatable. After almost eighteen months since the inception of measures to contain the pandemic, the common themes that have been dominating the industrial and warehousing market have been supply chain disruptions and new economy demand. We have supply chain disruptions and the increased demand for healthcare related equipment driving the demand for logistics space. We also have new economy companies spearheading demand for business park and high-spec industrial space together with such companies that serve the online consumer market on the lookout for logistics space. These have been described in our Q1/2021 briefing and its currency still holds. The additional observation for the second quarter is that buyers have actively been looking for deals but sellers, especially those on 30-year land leases, though having lowered their price expectations are not willing to go down further to consummate a sale. In view of the recovery in the multiple-user factory market, we have revised our rental forecast from -3% to 0% to 2.5%. For warehouse and logistics space, we maintain our 1% to 3% forecast range.

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%	+1.0% to 3.0%

Source Savills Research & Consultancy

4 Only include upper-storey strata-titled factory (single- and multiple-user factory) and warehouse units, excluding all ground floor units.
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.