Industry Outlook
Singapore Industrial REITs

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Overall Outlook

Key observations

Highest level of new supply in over five years. Compared to the initial estimate for new completions in FY24 (more than 2.0mn sqm), the current estimate for new supply expected to come onstream in FY24 has been tapered to c.1.7mn sqm. Although estimates have been lowered, it still represents a spike in new completions, marking the highest level of supply in over five years, since FY17. Single-user factory space continues to make up the bulk of the new supply for the rest of this year – about 61% – while business parks constitute c.21%, with warehouse and multiple-user factory space making up c.14% and c.4%, respectively. During 1Q24, all four industrial segments reported a dip in occupancy rates, mainly due to the delivery of new supply outpacing take-up. Despite this, occupancy rates for multi-user factories and warehouses remain at multi-year highs, above 90%.

In contrast, occupancy rates for business parks have fallen to c.78%, similar to levels last seen in early FY11, while occupancy rates for single-user factories have fallen to c.88%, the lowest level on record. Both segments have largely been reporting negative net absorption rates in the past few years as take-up has been slower than the delivery of new supply. For single-user factories, there has been the addition of more than 1.7mn sqm of new supply over the past five years, while take-up was only c.0.7mn sqm, making up only slightly more than 40% of the new stock. Similarly in the business park segment, although new supply over the past five years has been relatively limited, take-up has also been slow and we note that there has been a divergence in performance between business parks in the city fringe area and those in the rest of Singapore. Business parks in city fringe areas such as Harbourfront, Buona Vista, and One North have been faring better in terms of both occupancy and rental rates, as compared to areas such as Changi, Jurong, and Tuas.

Singapore PMI continues to expand for the ninth consecutive month. Singapore's May Purchasing Managers' Index (PMI) continued to be in expansionary mode for the ninth straight month, recording a 0.1 m/m uptick to 50.6 in May. The electronics sector, which accounts for a third of manufacturing activity, expanded for the seventh consecutive month to 51.1 in May. The overall expansion came from the faster growth in new orders, new exports, and factory output. Finished goods and employment also continued to grow, albeit at a slower rate. In contrast, input prices for manufacturing and supplier deliveries for the electronics sector contracted during the month.

Overall business sentiment in the manufacturing sector remains positive. Businesses surveyed by the Economic Development Board (EDB) generally anticipate more favourable business conditions in the next six months, as compared to 1Q24. Among them, firms in the semiconductor and electronic module and component segments are especially upbeat. Their optimistic outlook stems from higher demand for consumer electronic devices, and strong demand for artificial intelligence (AI) servers, which require memory, storage, and networking chips. Firms in the precision engineering, transport engineering, and general manufacturing segments also anticipate an improvement in business conditions in the next six months.

What are we watching?

Take-up rates of industrial properties. With the continued delivery of new supply of industrial stock, occupancy rates across the various segments posted a slight dip q/q. Only the multiple-user factory segment saw occupancy rates remaining flat q/q, while all the other segments reported a 0.2-0.5ppt decline. As more than 1.6mn sqm of new supply is projected to be delivered for the rest of FY24, we believe it would put further downside pressure on occupancy rates, especially for the single-user factory and business park segments. For the business park segment, we believe the divergence in performance between the city fringe and precincts in the rest of the island could widen further. With c.233,000sqm of new business park supply at Punggol Digital District (PDD) expected to come online in FY24, we believe that tenants who are currently based in precincts outside of the city fringe could be tempted to relocate to PDD.

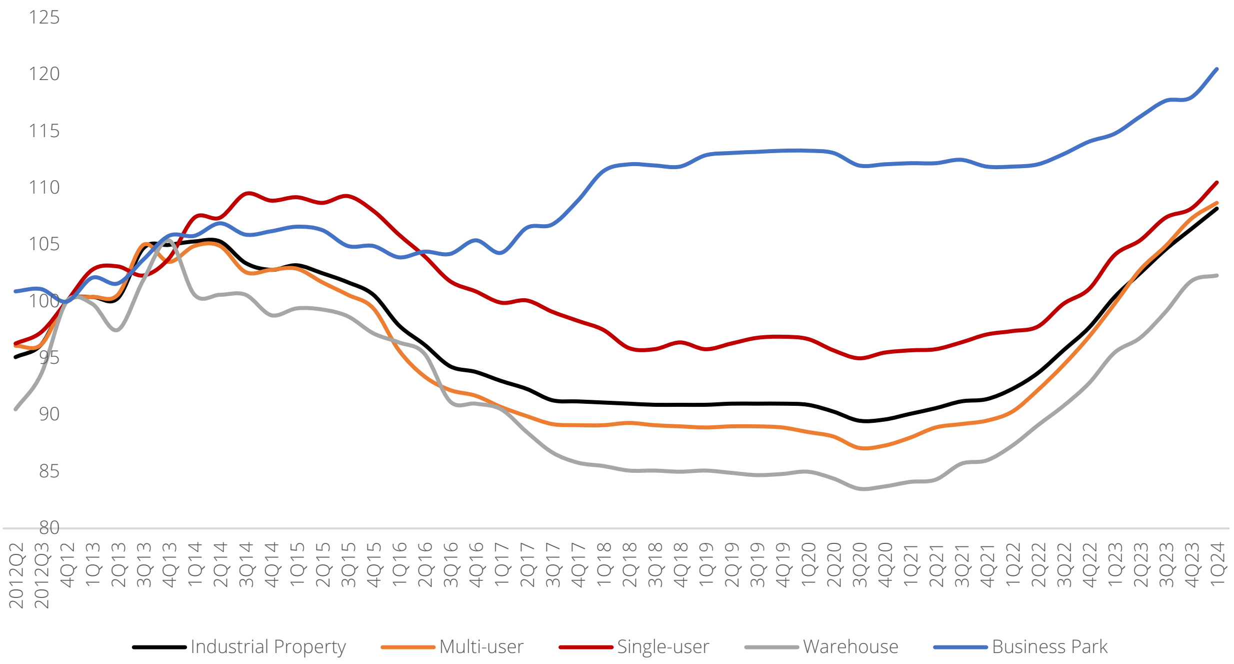
Key statistics for industrial sector

Key indicators of industrial sector

Key indicators	4Q23	3Q23	% change (q/q)	4Q22	% change (y/y)
Price index					
Industrial Property	102.7	102.9	-0.2%	99.4	3.3%
Multi-User Factory	109	108.5	0.5%	104.2	4.6%
Single-User Factory	89.2	90.1	-1.0%	87.6	1.8%
Rental index					
Industrial Property	108.2	106.4	1.7%	100.4	7.8%
Multi-User Factory	108.7	107.3	1.3%	99.8	8.9%
Single-User Factory	110.5	108.2	2.1%	104.1	6.1%
Warehouse	102.7	100.7	2.0%	95.5	7.5%
Business Park	120.5	118.0	2.1%	114.8	5.0%
Vacancy rate					
Industrial Property	11.3%	11.0%	0.3%	11.2%	0.1%
Single-User Factory	12.2%	12.0%	0.2%	11.3%	0.9%
Multi-User Factory	9.5%	9.5%	0.0%	11.1%	-1.6%
Warehouse	8.9%	8.4%	0.5%	9.7%	-0.8%
Business Park	22.0%	21.6%	0.4%	18.7%	3.3%
Pipeline under construction					
Industrial Property	42.7	38.4	11.3%	38.0	12.5%
Single-User Factory	18.6	16.0	16.6%	20.3	-8.3%
Multi-User Factory	9.2	9.0	2.5%	6.2	47.5%
Warehouse	10.9	9.7	12.5%	6.7	64.4%
Business Park	4.0	3.7	6.9%	4.8	-17.0%

Source: JTC Corporation, DBS

Rental Index: Rentals for industrial properties are at an all-time high

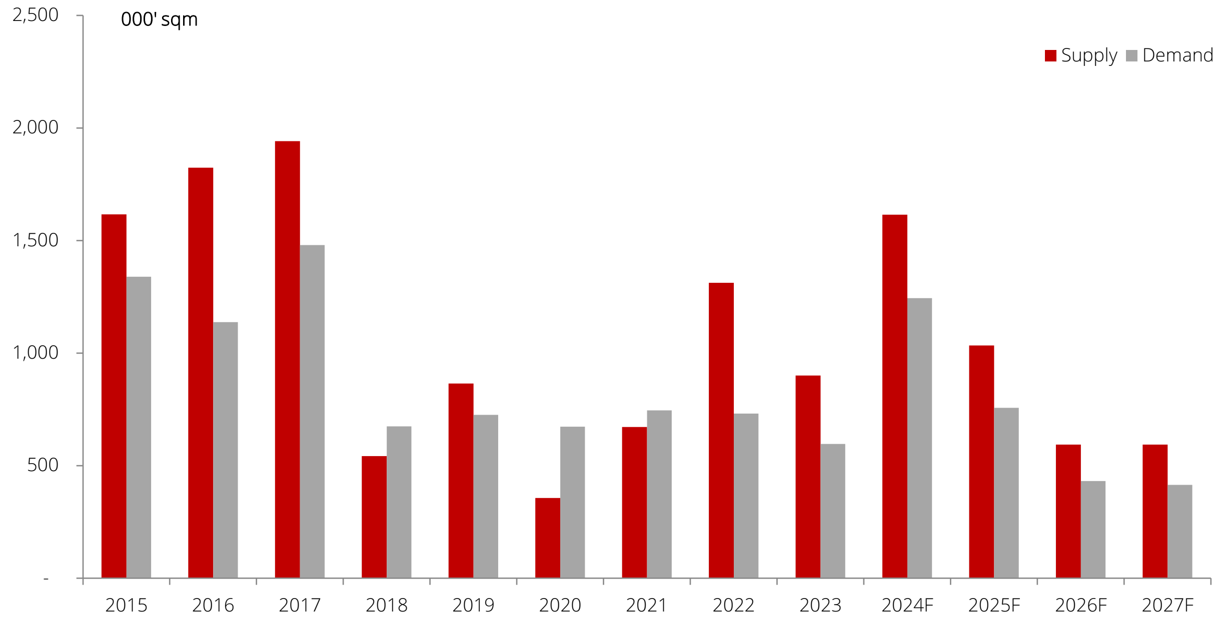


Source: JTC Corporation, DBS

- Overall Industrial Properties Rental Index has been on an uptrend since late FY20, likely due to a lack of new supply as construction delays hit.
- The Industrial Properties Rental Index is currently at an all-time high of 108.2. The rise has been primarily driven by the multiple-user factory and warehouse segments, which reported a 7.5% and 6.6% increase in rents in FY23, respectively.
- The multiple-user and warehouse rental indices are currently at 108.7 and 102.3, respectively, the highest levels on record.
- The Single-User Rental Index is currently at 110.5, also the highest level on record. Despite vacancy rates inching up over the past few years, rents for single-user factory space have been increasing, likely due to inflation.
- The Business Parks Rental Index is currently at 120.5, the highest level since FY10. This phenomenon is likely due to the addition of the higher quality business park space, with higher specifications that are able to command higher rents.

Key Charts: Industrial Sector

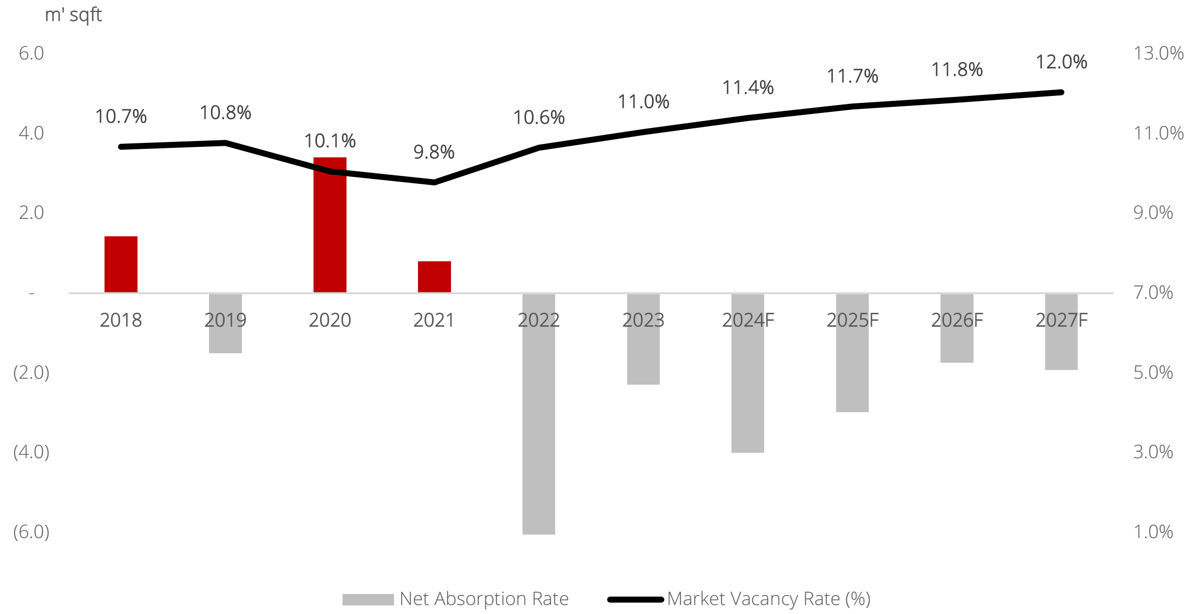
Bumper crop of new supply expected to continue into FY24F



Source: JTC Corporation, DBS

- A total of c.0.9mn sqm in new industrial space was added to the market in FY23, c.0.4mn sqm less than the amount last year. Similarly, the amount of new supply during these two years is now at the highest level since FY17, a result of a rollover in project completions from prior years, as the COVID-19 pandemic led to construction delays and disruptions to supply chains.
- Of the c.0.9mn sqm of new supply that was delivered in FY23, single-user factory space contributes c.33%, which is likely to have been developed by industrialists for their own use.
- Delivery of new warehouse space in FY23 constituted c.23% of the supply, easing the strong demand and shortage seen in the previous two years.
- Multiple-user factory space and business parks make up the remaining 44% of new supply delivered in FY23.
- Take-up of multiple-user and warehouse space has been robust in FY23, with positive net absorption over the past three years despite the delivery of the new stock. However, the spike in supply expected in FY24F and FY25F may put some pressure on occupancy and rental rates going forward.
- More than 1.6mn sqm of new industrial properties are expected to be completed in FY24, the largest amount of new stock since FY17.

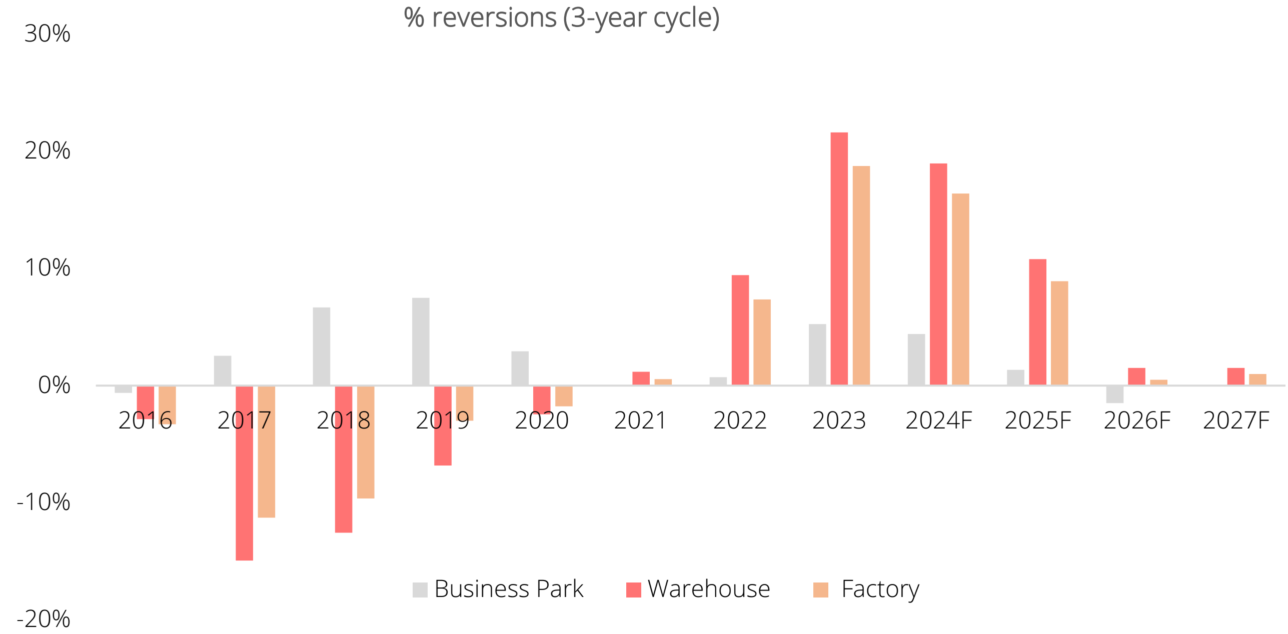
Spike in new supply in 2024F likely to lead to continued negative net absorption



Source: JTC Corporation, DBS

- Net absorption in FY20 and FY21 was 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 FY20's amount, pent-up demand and expansion needs led to a slightly positive net absorption in FY21, with the multi-user factory and warehouse segments being partially offset by the negative net absorption from the single-user factory and business park segments.
- With the spike in new industrial supply (c.1.3mn sqm) that hit the market in FY22, we saw negative net absorption, mainly contributed by the single-user factory segment, while other segments like warehouse and business parks reported a slowdown in take-up.
- Net absorption in FY23 continued to be negative as new supply continued to outpace demand. Once again, only the multi-user and warehouse segments recorded positive net absorption, while the negative net absorption in the single-user and business park segments continue to weigh down on the overall reading.
- In the medium term, we expect net absorption to continue to stay in negative territory as more supply comes online, potentially leading to the softening of occupancy and rental rates in the long term.

Rental reversion trend expected to remain healthy in the medium term

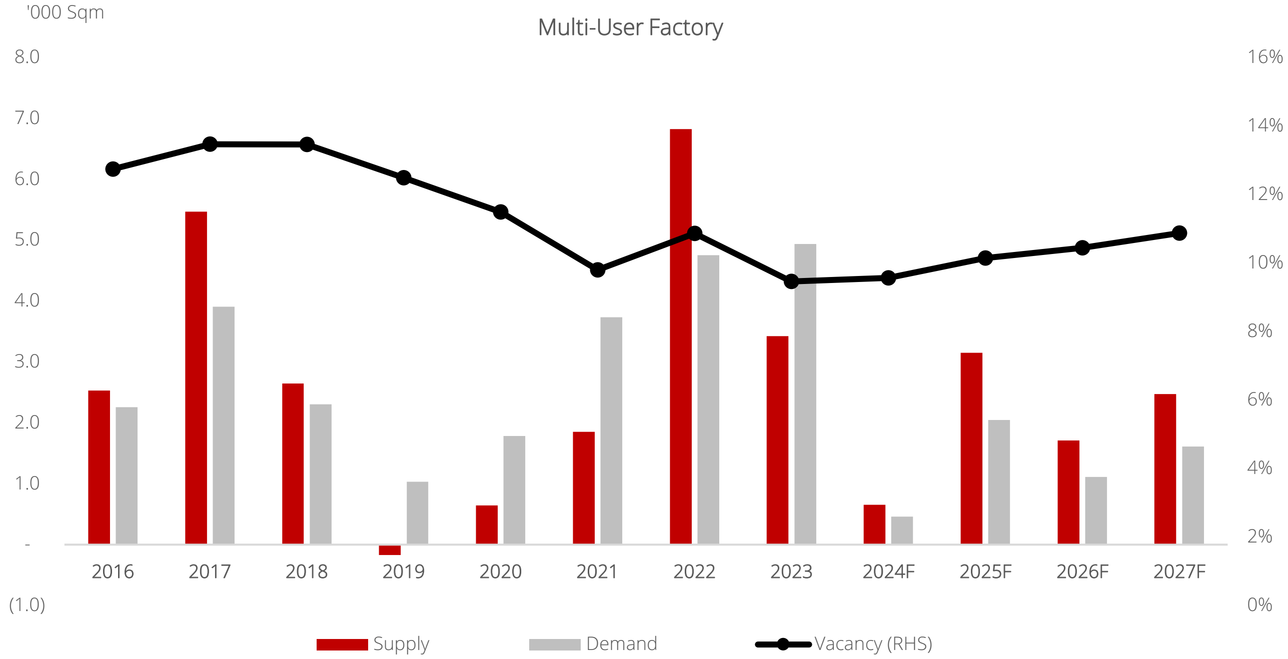


Source: JTC Corporation, Urban Redevelopment Authority, DBS

- After several years of negative rental reversions (three-year cycle) for the factory and warehouse segments, the trend reversed in FY21.
- Positive rental reversions started to pick up pace in FY22 as take-up from pent-up demand quickly backfilled vacant space, especially in the multi-user and warehouse segments.
- The positive rental reversion cycle continued into FY23 for the warehouse and factory segments, owing to strong demand, despite the pick-up in new supply.
- Overall rentals in the near term are expected to continue to remain healthy, even as more new supply is expected to come online, mainly due to the “low base” effect in the prior years.
- 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 of rentals for the warehouse segment, and we believe its outperformance will continue through to the coming years.
- Most rents expiring in the near term were signed during the lows of the COVID-19 pandemic (FY20/21). As such, we expect rental reversions to remain in positive territory in the coming years before tapering off in FY26.

Industrial Sub-sector – Multi-User Factory

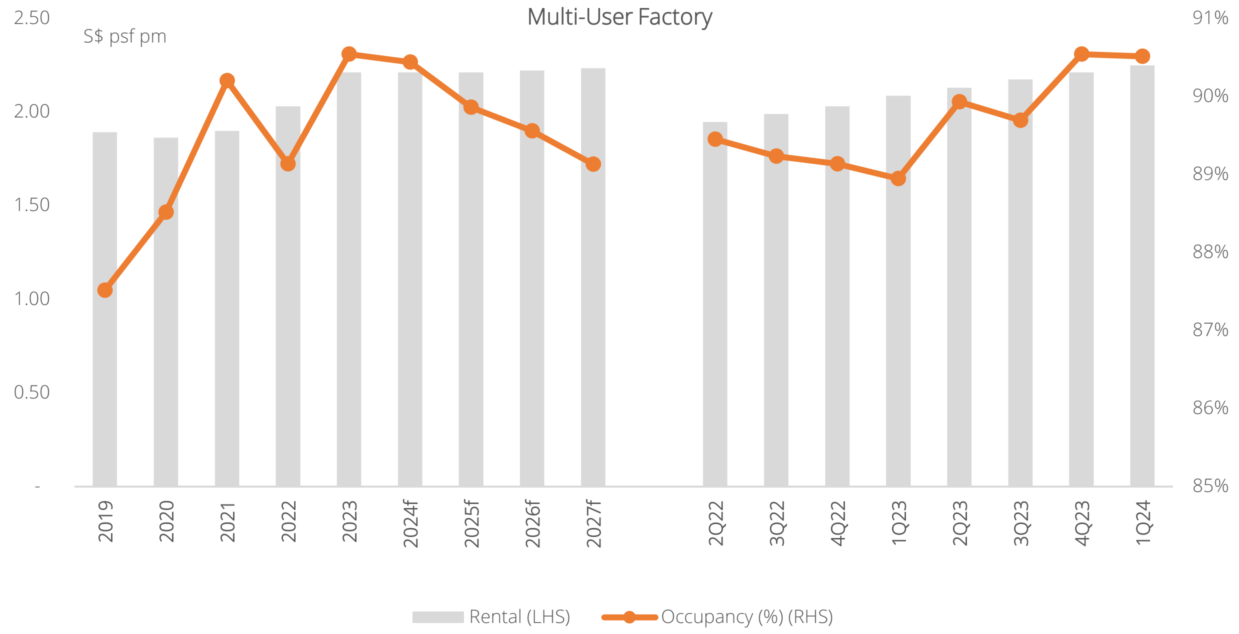
Multi-user factory supply: Supply spike has been well absorbed and will normalise in the next few years



Source: JTC Corporation, Urban Redevelopment Authority, DBS Bank

- New completions picked up in FY22 after more than three years of construction delays. A total of 634,000sqm of new supply of multi-user factory space was delivered in FY22, the largest increase in annual supply in over a decade.
- Despite the spike in supply, take-up of multi-user factory space was very strong. A total of 442,000sqm of space was taken up in FY22, thereby cushioning the increase in the vacancy rate. The vacancy rate in FY22 was 10.9% – an increase of only 100bps.
- The sudden spike in both supply and demand in FY22 was likely a result of construction delays over the past three years as well as pent-up demand from businesses waiting to occupy the newly completed projects.
- In FY23, the multi-user factory segment reported another year of very healthy demand. Approximately 460,000sqm of space was taken up in FY23, the strongest annual take-up seen on record.
- Looking ahead, we see a slight increase in the vacancy rate over the next two years as delivery of new supply normalises and the rising vacancies at single-user factory space could flow over and sub-letting could lead to competition for tenants that would have otherwise taken up multi-user factory space.
- We also expect to see a divergence in performance between newer properties with higher specifications that cater to specific industries (e.g., food manufacturing, life sciences, technology, etc.), and older general industrial properties with lower specifications.

Multi-user factories: Rebound in occupancy rate as delivery of new stock slows down in FY23



Source: JTC Corporation, Urban Redevelopment Authority, DBS

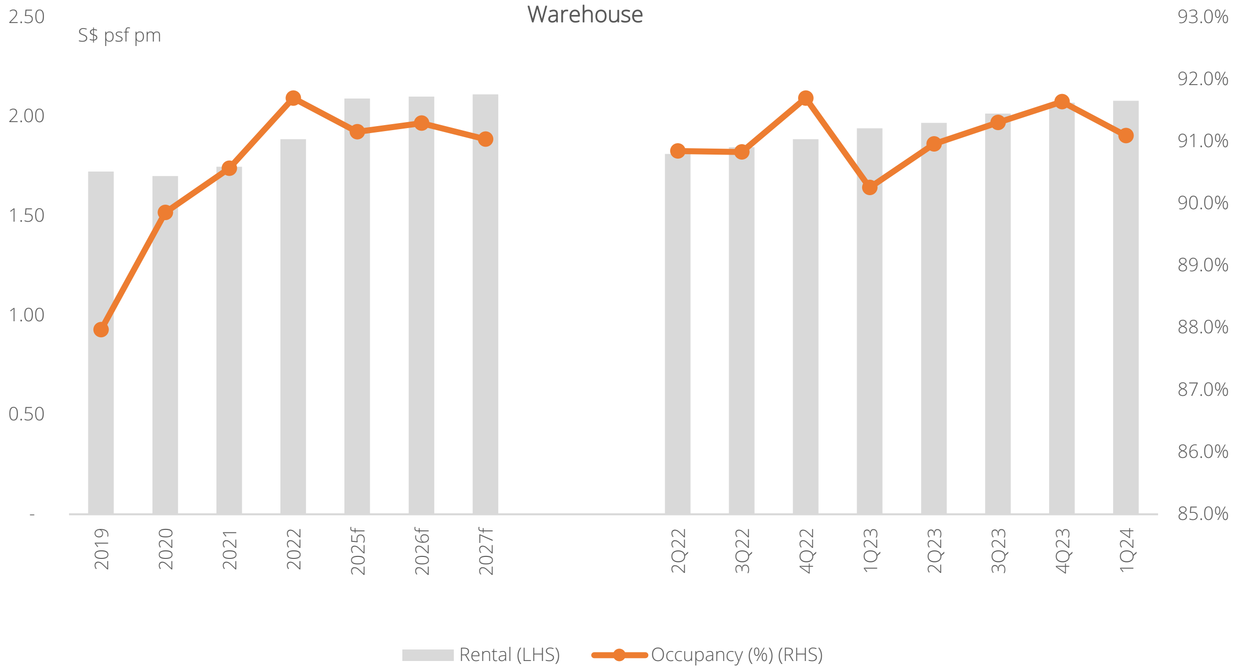
- Rentals surprised on the upside, with a c.8.2% increase in FY22 despite the spike in new supply delivered. This was likely due to cost inflation as well as higher rents commanded by the newer multi-user factory.
- In FY23, occupancy and rental rates also continued to surprise on the upside despite the spike in delivery of new supply. Occupancy and rental rates hit record highs in 4Q23, and have seemingly not slowed down y/y.
- However, we expect some downward pressure in occupancy rates going ahead, as the market must gradually backfill the bumper crop of new supply in FY22 and FY23.
- Rents could also see some downward pressure, but we believe it will remain relatively sticky in the near term. In fact, rentals in 1Q24 remained on an upward trajectory, rising 1.3% q/q.
- The rising vacancy rate in the single-user factory segment could lead to a spillover effect, with industrialists sub-letting some of their factory space to tenants that would have taken up space in multi-user factories instead.

Warehouses: Logistics sector driving demand for warehouses

Source: JTC Corporation, Urban Redevelopment Authority, DBS

- Delivery of new warehouse supply slowed down in FY22 to only c.116,000sqm. Excluding FY20, this has been the slowest pace of delivery of new supply in the past decade.
- With the logistics sector's continued expansion in FY22 and FY23, demand remained relatively healthy, and we saw a strong backfilling of available space in the market. Occupancies remained high through FY23, at levels not seen since FY14.
- 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 FY24, we believe occupancy rates will remain relatively stable, with continued strong demand for modern warehouses and the redevelopment of older stock.
- We may start to see a divergence in performance between modern logistics warehouses and traditional cargo lift warehouses as occupiers opt for newer, ramped up facilities.

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

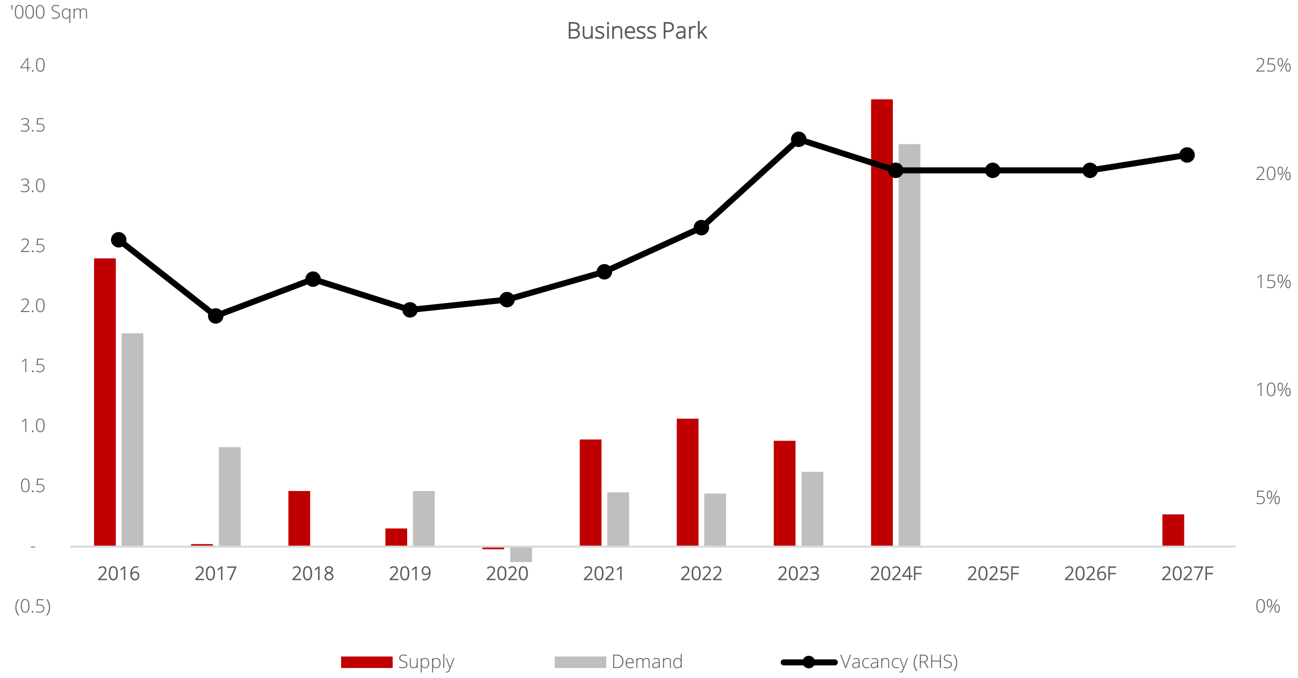


Source: JTC Corporation, Urban Redevelopment Authority, DBS

- 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 the growth of the logistics sector.
- Riding on the surge in demand for storage and delays in the completion of new supply, occupancy rates remained stable at 92% in FY23 despite the increase in new completions.
- Rents also continued to pick up along with improving occupancy rates and are currently at levels not seen since FY15.
- Although the warehouse segment is expected to experience another spike in new supply in FY24, we expect overall warehouse occupancy and rental rates to remain relatively stable and even continue inching up, driven by the continued expansion in the logistics sector.
- Moreover, the redevelopment of older warehouses could see some stock being taken offline, moderating the growth in warehouse space in the coming years.
- Despite some softening in occupancy rates earlier in FY23, healthy take-up rates in the past two quarters led to an improvement in occupancy rates, to c.91.6%, in 4Q23.
- 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 all face stiff competition.

Industrial Sub-sector: Business Parks

Majority of business park space has been pre-committed



Source: JTC Corporation, Urban Redevelopment Authority, DBS

- There have been some additions to business park supply in FY22 and FY23, while demand remained relatively muted. However, we believe that there has been a divergence in performance among business parks in the city fringe and elsewhere.
- Vacancy rates have continued to inch up, reaching c.22.0% at present, and we believe that the spike in new supply in FY24 could lead to further pressure on occupancy rates.
- Although the bulk of the new supply of business park space is coming from the Punggol Digital District, which is understood to be significantly pre-committed, we believe demand will not grow as quickly as new supply.
- As business parks in the city fringe precincts of Buona Vista and Alexandra are favoured over the rest of the island, we believe these will outperform business parks in other areas such as Jurong, Changi, and Tuas.
- Moreover, business park precincts in Buona Vista and Alexandra are expected to remain more resilient than the rest of the island due to its unique positioning of catering to tenants from the biomedical, life sciences, technology, and R&D sectors.

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