Quarterly and Outlook | Singapore | Feb 2023

Industrial Q4 2022 & Outlook: **Tough act to follow**

Insights & recommendations

- Notwithstanding a slight drop in overall occupancy from 89.7% in Q3 2022 to 89.4% this quarter, both the JTC industrial price and rental indices continued their ninth consecutive quarter of growth.
- The rental index rose by 2.1% q-o-q, maintaining its pace last quarter. This marks a 6.9% annual growth for 2022, making it the fastest y-o-y rental growth since Q3 2013. The price index rose by 1.7% q-o-q, easing from the 2.0% q-o-q growth last quarter. This marks a 8.5% annual growth for 2022 and would make it the fastest y-o-y price growth since Q2 2013.
- Colliers expects rental growth to moderate to between 1 to 3% for this 2023. On the other hand, industrial prices could increase at a higher clip of between 3 to 5% due to sustained interest in industrial assets with their higher yields and limited availability. There should also be more sale and leaseback activities as companies look to free up some capital.

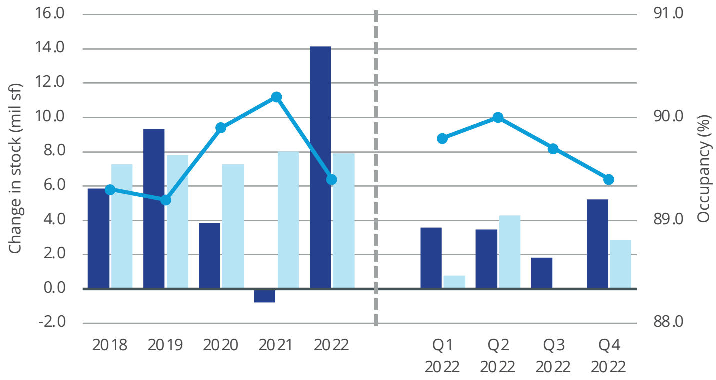
		Q4 2022	Full Year 2023	Historical Average 2018–2022
Demand	Net absorption was 2.89 mil sf in Q4 2022, bringing total net absorption for 2022 to 7.89 mil sf.	**2.89 mil sf**	**11.96 mil sf**	**7.65 mil sf**
Supply	About 5.24 mil sf of industrial space came onstream in Q4 2022, bringing total net supply for 2022 to 14.12 mil sf.	**5.24 mil sf**	18.91 mil sf	**8.07 mil sf**
		QOQ / End Q4	YOY change/ End 2023	YOY / Q4 2022
Rent*	Prime logistics rents grew by a further 1.2% in Q4 2022, bringing annual growth for 2022 for this segment to 5.1%.	**1.0%** SGD1.64	**3.0%** SGD1.69	**5.1%** SGD1.64
Vacancy	The overall vacancy rate increased to 10.6% in Q4 2022 due to the pickup in new completions.	**0.3 pp** 10.6%	**0.9 pp** 11.5%	**0.8 pp** 10.6%
Capital Values/Yields*	Capital values for prime logistic assets grew by 1.2% in Q4 2022, bringing annual growth for prices to 4.5%.	**1.2%** SGD209 psf	**2.9%** SGD215 psf	**4.5%** SGD209 psf

Source Colliers, JTC; Note: 1 sq m = 10.764 sf. "pp" refers to percentage point. *Rents, capital values and yields refer to prime logistics assets.

All Industrial Property

The slight drop in overall occupancy of 0.3% in Q4 2022 was due to the pickup in new completions. This led to new supply exceeding new demand, with new supply coming in at 5.24 mil sf, (the largest quarterly increase since Q4 2017), while net demand came in at just 2.89 mil sf. The same narrative applies for full year 2022, where total supply (14.12 mil sf) exceeded total demand (7.89 mil sf).

All industrial demand & supply

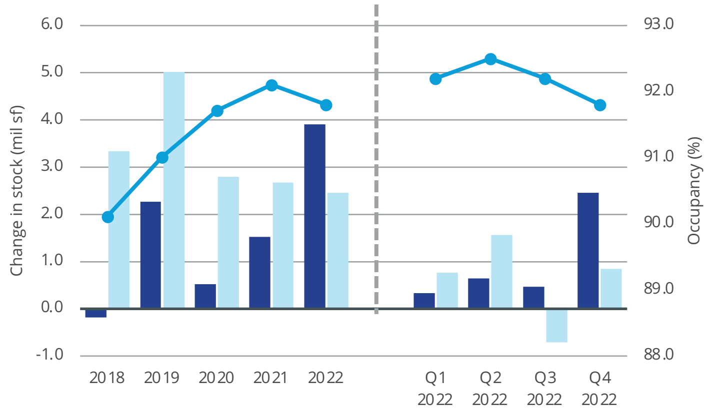


Factory

The rental indices for both multiple-user/single-user factory have increased by 2.6%/1.3% q-o-q respectively, marking an annual growth of 8.3%/4.1% for 2022. This also makes multiple-user factories stand out as the segment with the highest rental growth, as occupiers seek office grade industrial spaces.

However, the rental growth and demand for factories is likely to slow on the back of a weaker manufacturing outlook and a higher supply pipeline. Nevertheless, there will continue to be new biomedical and semi-conductor facilities, on the back of government efforts to attract multi-nationals to set up their manufacturing hubs in Singapore.

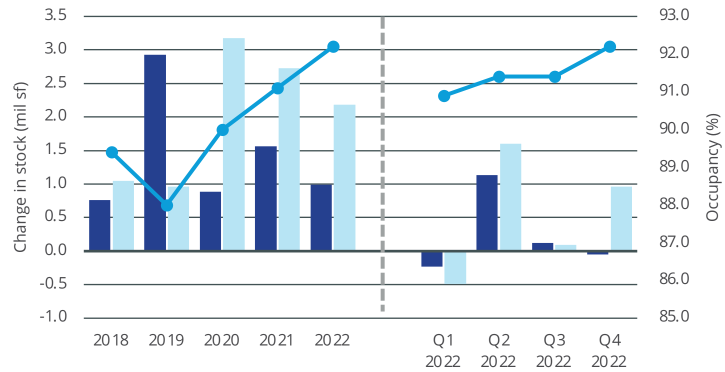
Private factory demand & supply



Warehouse

Warehouses registered an annual rental increase of 7.9%, with occupancy tightening to 91.7% from 90.8% in the previous quarter. Colliers has observed that the demand for warehouse space has not abated, supported by end-users, third-party logistics players and food manufacturers. Specifically for prime logistics and temperature-controlled warehouses, there is a shortage of suitable stock to meet demand. As such, prime logistics rents are set to continue their steady climb on the back of limited supply and strong pre-leasing rates for this upcoming supply.

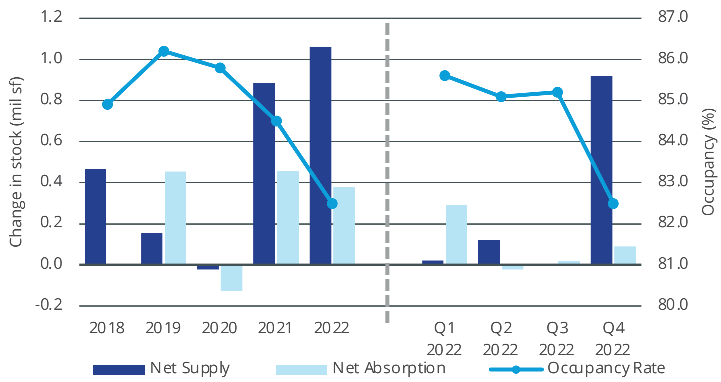
Private warehouse demand & supply



Business Parks

Business parks rents have started to exhibit some sustained growth, despite higher supply and vacancy rates. Newer, higher specification developments in the city fringe are still observed to have tighter vacancies and resilient rents. This has led to some occupiers moving to business parks further away to reduce operating costs. Over the next few years, rents and occupancies are likely to be dampened by a significant supply coming onstream, coupled with weakening demand, particularly from the tech sector.

Business parks demand & supply



Source: Colliers, JTC

"The consistent growth in rents has attracted institutional investors looking for higher yields, propping up demand for industrial assets. This trend is set to continue in an environment of higher rates and inflation."

Lynus Pook
Executive Director & Head
Industrial Services | Singapore

Colliers average industrial rents

	Q4 2022 (SGD)	% Change QOQ	% Change YOY
High-specs	3.27	0.6%	2.3%
Factory*	1.66	0.6%	1.8%
Warehouse*	1.55	1.3%	4.4%
Prime logistics	1.64	1.2%	5.1%
Business Park	3.72	1.1%	1.0%
Prime Business Park	6.27	0.3%	1.6%

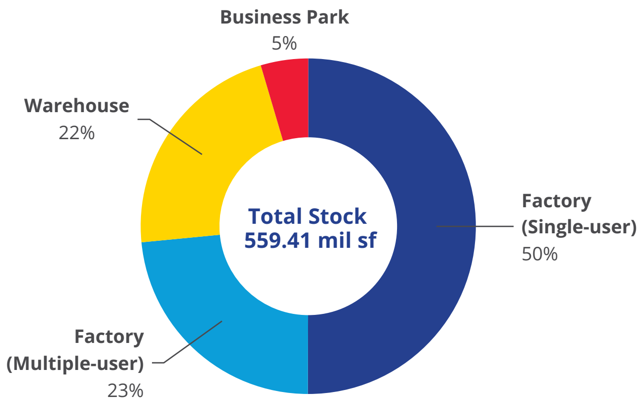
**Average of upper and lower floor rents*

With an average annual supply of about 1.0m sqm from 2023 till 2026 coming onstream, (compared to an average annual supply of 0.8m sqm over the past three years), supply is likely to outstrip demand and weigh on rental growth. The warehouse segment might be an exception to this trend, as there appears to be a dearth of supply post 2024, and where pre-commitment to existing pipeline supply is high.

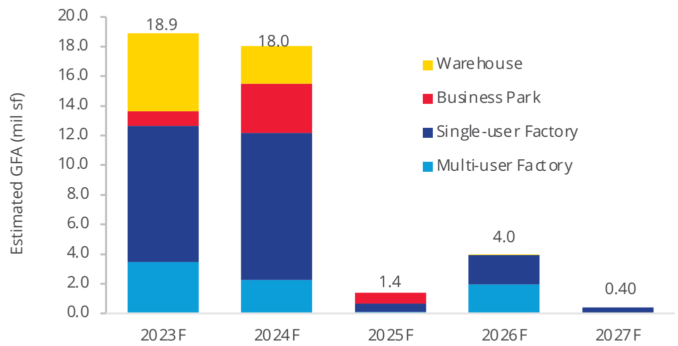
Economic indicators such as Singapore's manufacturing output, NODX and PMI are collectively pointing towards a manufacturing slowdown and weaker demand. Against the backdrop of inflationary pressures and rising interest rates which lead to higher capital costs, sentiments will inevitably be affected, leading to more industrialists becoming more cautious about their leasing plans. On the other hand, as some companies will want to free up capital, they might turn to leasing instead of acquiring or owning their own industrial space.

Consequently, Colliers expects rental growth to moderate to between 1 to 3% for 2023, though warehouse rents might continue to outperform on the back of tight supply. On the other hand, industrial prices could grow at a faster pace of between 3 to 5% on the back of growing interest in industrial assets due to their higher yields and limited availability.

Industrial stock: Q4 2022



Upcoming supply



Significant upcoming projects as of Q4 2022

Project Name		Developer	GFA ('mil sf)	Expected TOP*
1	Solaris @ Tai Seng	Soilbuild Group	1.13	2023
2	1 Science Park Drive	Capitaland/AREIT	1.21	2025
3	Surbana Jurong	Surbana	0.38	2023
4	2PS1	Soilbuild REIT	0.76	2023
5	Logos eHub at Pandan Crescent (Phase 2)	Logos	0.87	2023

Source: Colliers, JTC *TOP: Temporary Occupation Permit

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