MARKET IN MINUTES

Savills Research

Industrial

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Industrial rents continue rising

Despite the slowdown in the manufacturing sector, leasing volumes have remained strong.

- The leasing volume rebounded in Q1/2023 after three consecutive quarters of yearly decline, increasing 2.5% year-on-year (YoY) to 3,229 tenancies.
- Savills' average monthly rent for prime multiple-user factories rose 0.9% quarter-on-quarter (QoQ) to S$2.03 per sq ft in Q1/2023, and average monthly rents for warehouse and logistics properties continued to rise, albeit at a moderate pace of 0.4% QoQ to S$1.54 per sq ft.
- Strata industrial sales activity across all segments continued falling for a third consecutive quarter by 22.3% QoQ to 349 transactions.
- Savills' basket of industrial properties showed that prices for 60-year leasehold and freehold industrial properties rose by 2.2% and 1.6% QoQ to S$484 per sq ft and S$788 per sq ft respectively in Q1/2023. 30-year leasehold property prices grew for an eighth consecutive quarter by 0.5% QoQ to S$315 per sq ft.
- Savills' prime business park monthly rents rebounded in Q1/2023, reversing the marginal decline of 0.3% in Q4/2022 and rising 0.6% QoQ to S$5.95 per sq ft. However, the average monthly rents of Savills' standard business park properties contracted further by a marginal 0.3% QoQ to S$3.99 per sq ft.
- The average monthly rent for Savills' high-spec industrial basket rose for a seventh consecutive quarter at a slightly higher 0.7% QoQ to S$3.74 per sq ft in the quarter.
- Domestic pump priming efforts and the continuing practice of stocking up inventory may see rents for multiple-user factory and warehouse space rise by 3% - 5% and 3% - 6% YoY respectively.

"For now, the global economic and technology malaise is impacting multinational companies which occupy single-user factories more than domestic companies."

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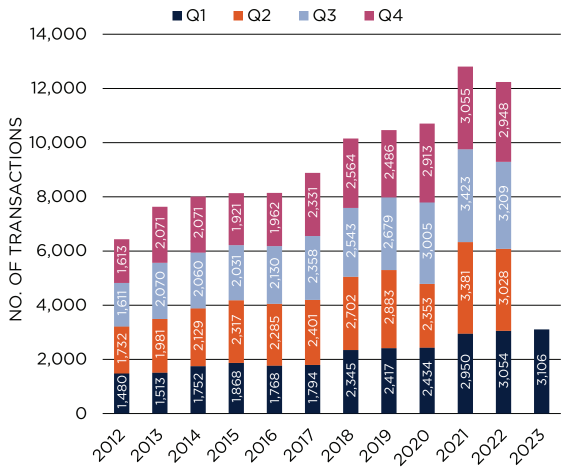
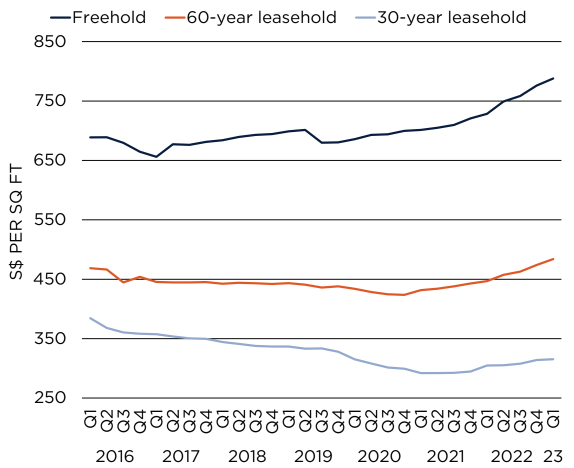
GRAPH 1: Factory and Warehouse Leasing Volumes, 2012 to Q1/2023



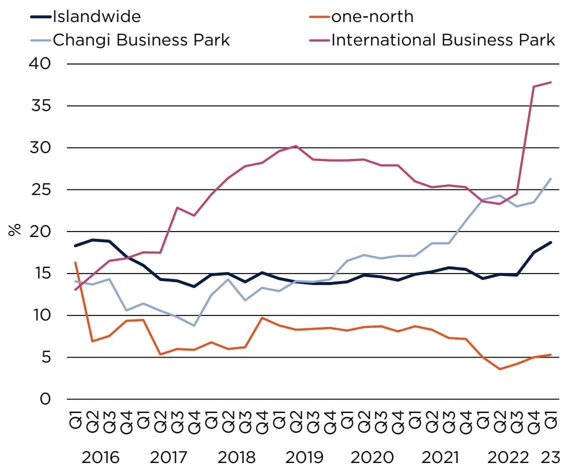
Source JTC, Savills Research & Consultancy

GRAPH 2: Prices of Upper-Storey Strata Factory and Warehouse Units, Q1/2016 to Q1/2023



Source JTC, Savills Research & Consultancy

GRAPH 3: Business Park Space Vacancy Rates, Q1/2016 to Q1/2023



Source JTC, Savills Research & Consultancy

MACROECONOMIC OVERVIEW

According to advance estimates from the Ministry of Trade and Industry, the Singapore economy expanded 0.1% YoY in Q1/2023, slowing from the 2.1% YoY growth in Q4/2022. Growth in Q1/2023 was largely attributed to the expansion in the construction sector and services producing industries, particularly accommodation & food services, real estate, administrative & support services and other services sectors. The manufacturing sector, on the other hand, contracted 6.0% YoY in the first quarter of 2023, a deceleration from the 2.6% drop in Q4/2022. This was due to output contractions across all manufacturing sectors, except for the transport engineering sector.

The growth momentum in the manufacturing sector has been slowing in recent months, arising from increasing global growth concerns and a slowdown in the global electronics sector, particularly the semiconductor industry. The overall Purchasing Managers' Index (PMI) fell back to contraction territory in March 2023 after having expanded in February 2023. The expansion came after five consecutive months of contraction. The electronics PMI remained in contraction territory for an eighth consecutive month. In a similar light, Singapore's non-oil domestic exports (NODX) also contracted on a YoY basis for a sixth consecutive month. In March 2023, it fell 8.3% YoY compared to the 15.8% YoY contraction in February 2023.

RENTAL MARKET

Following three consecutive quarters of YoY decline, leasing volume[1] rebounded in Q1/2023, increasing 2.5% YoY to 3,229 tenancies in total. In the quarter, more tenancies were signed across all property types except the single-user factory segment. While leasing volume for multiple-user factory spaces rose 1.8% YoY in the quarter, leasing transactions for single-user factory spaces fell by a larger 17.5% YoY, as compared to the 15.5% decline in the previous quarter. Like the multiple-user factory segment, leasing transactions in the warehouse segment also increased by 12.1% in Q1/2023, a reversal from the 9.4% decline in the previous quarter.

Due to a contraction in demand for single-user factory space and lower leasing transactions, the vacancy rate grew for a seventh consecutive quarter by 0.4 of a percentage point (ppt) QoQ to 11.3% in Q1/2023, which was largely attributed to an increase in vacancy levels in the Central (+0.9 of a ppt), North East (+0.6 of a ppt) and West (+0.5 of a ppt) Regions. For the multiple-user factory segment, the islandwide vacancy rates rose for a third consecutive quarter by 0.2 of a ppt to 11.1% in the quarter. While vacancy rates in the North-East and Central Planning Regions grew by 2.9 ppts and 0.8 of a ppt respectively, this was largely offset by declines in vacancy rates in the North (-1.8 ppts), East (-0.7 of a ppt) and West (-0.3 of a ppt) Planning Regions. Warehouse vacancy levels expanded in the quarter as well, increasing 1.4 ppts QoQ to 9.7% after declining in the previous quarter, which was attributed to an increase of 1.3 million sq ft in supply. This was the largest completed warehouse supply in a quarter since Q2/2021 when completions amounted to 2.8 million sq ft. Significant increases in vacancy rates were observed in the North, West and North-East Planning Regions, increasing by 2.4 ppts, 1.9 ppts and 1.6 ppts respectively.

Overall industrial rents continued to increase for a tenth consecutive quarter in Q1/2023, with JTC's rental index for all industrial properties rising by a larger 2.8% QoQ, compared to the 2.1% in Q4/2022. This was the largest quarterly increase since the rental index expanded 4.4% in Q3/2013. The rental index for both single-user and multiple-user factory spaces grew 3.0% QoQ, the largest rise since Q1/2014 and Q3/2013 when rents for single-user and multiple-user factory space rose by 3.5% and 4.4%. Similarly, JTC's rental index for warehouses increased by a larger 2.9% in Q1/2023, in comparison to the 2.2% QoQ growth in the previous quarter. This was the largest QoQ increase since warehouse rents rose 3.4% in Q4/2013. In a similar light, Savills' average monthly rents for prime multiple-user factories[2] grew 0.9% QoQ to S$2.03 per sq ft in Q1/2023 after remaining unchanged in the previous quarter. For warehouse and logistics properties[3], Savills' average monthly rents continued to increase further, albeit at a moderated pace of 0.4% QoQ to S$1.54 per sq ft, amid rising inflation and strong demand for logistics and food spaces.

SALES MARKET

Strata industrial sales activity[4] across all segments continued falling for a third consecutive quarter, decreasing 22.3% QoQ to 349 transactions in Q1/2023. This was brought about by a slowdown in the manufacturing sector amid uncertainties in the global economy and a lacklustre electronics industry. The decline was largely evident for the multiple-user factory and warehouse segments, with sales volume for warehouses decreasing 28.0% QoQ to 18 transactions while multiple-user factories fell 22.2% QoQ to 330 transactions in the quarter.

Despite a slowing transaction volume in the strata industrial sales market, industrial prices continued to escalate further, albeit at

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$1.30 per sq ft.

4 Based on JTC's sales caveat data, downloaded on 5 May 2023.

a more moderate pace. Savills' basket of industrial properties showed that prices for 60-year leasehold and freehold industrial properties rose by 2.2% and 1.6% QoQ to S$484 per sq ft and S$788 per sq ft respectively in Q1/2023. For freehold properties, prices have risen for a 14th consecutive quarter while 60-year leasehold properties have increased for a ninth consecutive quarter. The attractiveness of these properties may be attributed to the longer remaining leases and a scarcity of freehold properties. Similarly, prices of 30-year leasehold properties continued to rise for an eighth consecutive quarter by a smaller 0.5% QoQ to S$315 per sq ft. Properties which are centrally located were observed to have larger price increments.

BUSINESS PARKS AND HIGH-SPEC INDUSTRIAL

Vacancy levels of islandwide business parks increased for a second consecutive quarter by a smaller 1.2 ppts to 18.7% in Q1/2023, compared to the 2.7 ppts increase in the previous quarter. Demand for business parks may have weakened due to global economic uncertainties. Across the regions, the growth in vacancies was largely attributed to a 2.3 ppts growth in vacancy rates of business parks in the East Region, which was led by vacancy levels in Changi Business Park (CBP) increasing by a significant 2.8 ppts to 26.3%. The GEAR at Changi Business Park Crescent was completed in the quarter, and this serves as Kajima Corporation's Asia Pacific headquarters. While this may have contributed to the significant increase in vacancy rates, in subsequent quarters, the moving in of the occupiers who called for the construction of the building may result in vacancy rates in the area stabilising. On the other hand, vacancy rates in Cleantech Park declined further by a smaller 1.1 ppts to 47.4% in the quarter. Nevertheless, business park rents remained strong, particularly for prime properties. Savills' prime business park[5] monthly rents rebounded in Q1/2023, reversing the marginal decline of 0.3% in the previous quarter and registering a QoQ increase of 0.6% to S$5.95 per sq ft. On the other hand, monthly rents of Savills' standard business park properties[6] continued to fall for a second consecutive quarter by a marginal 0.3% QoQ to S$3.99 per sq ft.

With the prime-quality specifications of high-spec buildings, there is still strong occupier demand for such properties, resulting in rising rents. According to Savills' high-spec industrial basket[7], the average monthly rent for high-spec industrial properties rose for a seventh consecutive quarter at a slightly higher 0.7% QoQ in Q1/2023, compared to the 0.5% in the previous quarter, to S$3.74 per sq ft.

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
2023F	3% to 5%	3% to 6%

Source Savills Research & Consultancy

OUTLOOK

On the one hand, fundamentals in the industrial market appears to be flashing amber as vacancies are rising across broad segments of the market. On the other, rents and prices are going against the grain. In particular, vacancy levels for single-user factories rose for a seventh consecutive quarter by 0.4 of a ppt QoQ to 11.3% in Q1/2023 while rents and prices continue to rise significantly. For instance, rents for single-user factories rose 3.0% QoQ in Q1/2023. In the warehouse segment, although vacancy levels increased 1.4 ppts QoQ, JTC's statistics show that rents rose by a sharp 2.9% QoQ in the quarter in review. On the transaction front, the same story of rising sales prices across the various tenures of industrial space was recorded.

While the metrics like vacancies correlate with the general economic malaise confronting the manufacturing sector, rents and prices appear to be trending the other way. One interpretation of this divergence is that it is only short-term in nature and soon, both rents and prices may fall back in line to reflect the challenging economic circumstances. If rents and prices were measured in real terms i.e. after accounting for inflation, this could already have been happening. However, there is more to just pinning the reason down to inflation. In our Q2/2022 Industrial Briefing, we mentioned that domestic pump priming efforts may result in industrial demand being channelled to the multiple user space market. We see this playing out in Q1/2023 when more tenancies were signed across all property types except the single-user factory segment. While leasing volume for multiple-user factory spaces rose 1.8% YoY in the quarter, leasing transactions for single-user factory spaces fell by a larger 17.5% YoY. The Small and Medium Sized Enterprises (SMEs) serving the domestic market are those that are often found in multiple-user factories. Multinational Companies are often located in single-user factories.

In other words, the global economic slowdown and tech sector restructuring is impacting the single user factory as well as the business park space market. Sectors whose markets are domestic will find respite in the form of either government pump priming efforts or the continuing practice of stocking up inventory to hedge against inflation and potential supply chain disruptions. Still, while this may lend support on the multiple-user factory and warehousing front, if interest rates remain elevated, demand from the domestic sector may wane over time when margins thin out.

Nevertheless, for the next two to three quarters, we may get to see both price and rental support from the multiple-user factory and warehousing segments of the industrial market, particularly those focused on the domestic front. For business parks, so long as the tech sector does not pull out of its dive, conditions will remain challenging.

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.