Industry Outlook
Singapore Industrial REITs

Refer to important disclosures at the end of this report

DBS Group Research. Asian Insights Office

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Overall Outlook

Key observations

Net absorption turns negative as supply continues to come online. In 4Q22, 486,000sqm of new supply of industrial space was added to the market. This has been the largest quarterly supply addition seen in FY22 and the largest quarterly increase in supply in over five years. Total new supply of more than 1.3m sqm was added to the market in FY22 – significantly more than the average new supply of c.875,000sqm per annum in the past five years. Although we saw a spike in new supply in FY22, it was less than half the c.2.8m sqm in new supply that JTC originally projected at the start of the year. This means that some of the new supply in FY22 has been further delayed, with JTC now forecasting a total of c.1.8m sqm of supply to be delivered in FY23. A bulk of this will again come from the single-user factory segment (49%), while warehouse supply constitutes 28%, and the multiple-user factory and business park segments make up the remaining 23%.

Although there was a spike in new supply in FY22, the demand of c.733,000sqm was relatively in line with the demand seen over the past five years. As such, the negative net absorption led to a slight 0.8ppt decline in the overall occupancy rate for industrial space. The negative net absorption was most pronounced in 4Q22, which coincided with the largest delivery of new supply in FY22. With the delivery of new supply expected to remain on an upward trajectory in the coming year, we could see further negative net absorption rates and continued pressure on the overall occupancy rates for industrial space (currently at 89.4%).

Rental Index continues to inch up despite the pick-up in delivery of new supply. Despite the faster pace of delivery of new supply and negative net absorption rates, the Rental Index continued to inch up to 97.7. During the year, the Rental Index increased by 6.9%, the fastest pace seen in over a decade. Every industrial property segment saw an increase in its respective rental index, with the multiple-user factory and warehouse segments reporting the strongest y-o-y increases of 8.3% and 7.9%, respectively.

What are we watching?

Take-up rates of industrial properties. With the pick-up in new supply in FY22, we saw negative net absorption in three out of the four quarters last year. Only the warehouse segment continued to report positive net absorption in the whole of FY22, while for the other three segments it was negative, and the worst performer was single-user factory space (c.-442,000 sqm). Although the decline in occupied space was caused mainly by the single-user factory segment, we also noted that demand for the warehouse and business park segments slowed down in FY22. In our view, the slowdown in the take-up rate could likely be attributed to economic uncertainties and businesses delaying expansion plans due to rapidly rising costs as well as higher interest rates.

Although we understand that tenant demand from the biomedical, precision engineering, high-tech manufacturing, and logistics sectors continue to remain robust, we are keeping a close eye on how sustainable demand will be as we enter FY23, with economic conditions becoming more uncertain. Historically, the logistics and high-specification industrial segments tend to outperform and remain more resilient during periods of economic uncertainty, and we are expecting this trend to re-emerge going forward.

Will the protracted weakness from single-user factory space flow down to other segments? As evident in FY22, the single-user factory space reported negative net absorption for more than two consecutive years. Over the past 10 quarters, the negative net absorption was a function of the spike in new supply, as well as declining occupied space. With a further c.1.8m sqm of new supply in single-user factory space expected to be delivered in FY23 and FY24, it could put further downward pressure on existing stock. Although the anchor tenant rule prevents landlords of single-user factories to sublet more than

30% of the space, they could compete for some tenants that would otherwise be located at multiple-user factories or warehouses. This, in turn, could put pressure on multiple-user factory and warehouse demand.

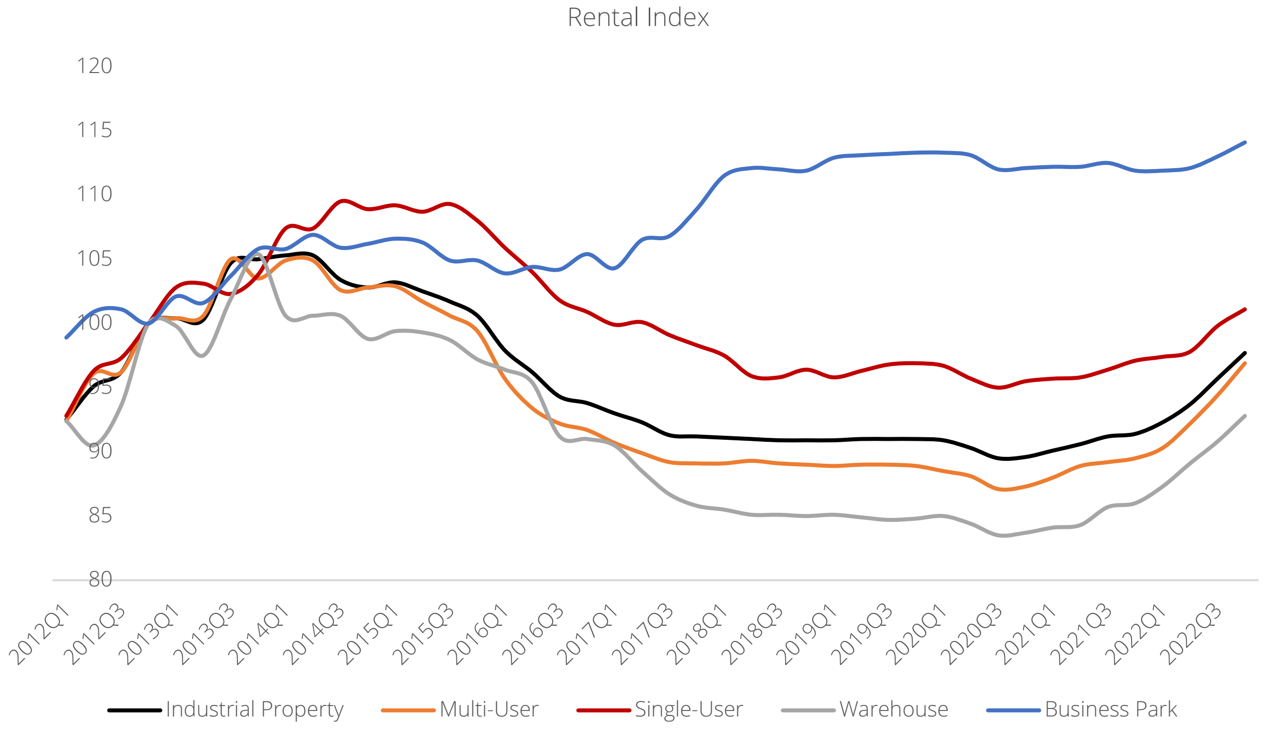
Key statistics for industrial sector

Key indicators of industrial sector

Key Indicators	4Q22	3Q22	% Change (q-o-q)	4Q21	% Change (y-o-y)
Price index					
Industrial Property	97.9	96.3	1.7%	91.1	7.5%
Multi-User Factory	102.1	99.6	2.5%	93.9	8.7%
Single-User Factory	86.8	86.4	0.5%	82.1	5.7%
Rental index					
Industrial Property	97.7	95.7	2.1%	91.4	6.9%
Multi-User Factory	96.9	94.4	2.6%	89.5	8.3%
Single-User Factory	101.1	99.8	1.3%	97.1	4.1%
Warehouse	92.8	90.8	2.2%	86.0	7.9%
Business Park	114.1	113.0	1.0%	111.9	2.0%
Vacancy rate					
Industrial Property	10.6%	10.3%	2.9%	9.9%	7.1%
Single-User Factory	10.9%	10.2%	6.9%	9.4%	16.0%
Multi-User Factory	10.9%	10.8%	0.9%	9.8%	11.2%
Warehouse	8.3%	9.2%	-9.8%	10.0%	-17.0%
Business Park	17.5%	14.8%	18.2%	15.5%	12.9%
Pipeline under construction					
Industrial Property	43.4	46.7	-7.1%	50.8	-14.5%
Single-User Factory	22.1	24.4	-9.5%	21.5	2.8%
Multi-User Factory	8.5	9.7	-12.1%	15.6	-45.5%
Warehouse	7.8	7.5	4.4%	8.3	-5.1%
Business Park	5.0	5.1	-2.5%	5.4	-7.6%

Source: JTC Corporation, DBS Bank

Rental Index: Rentals for industrial properties are at a 5-year high

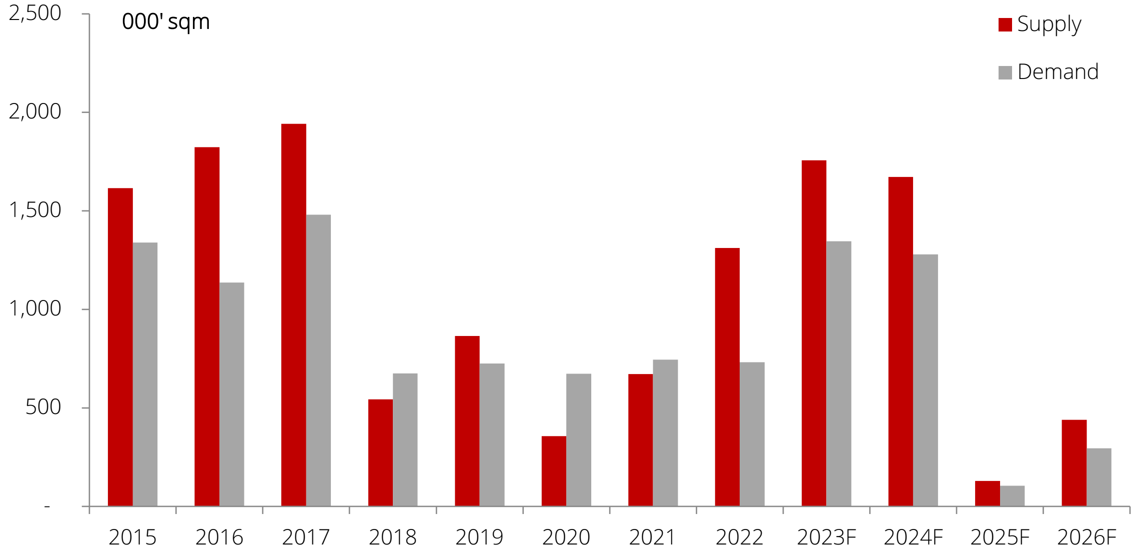


Source: JTC Corporation, DBS Bank

- The overall Industrial Properties Rental Index has been on the uptrend since late FY20, likely due to a lack of new supply as construction delays hit.
- The Industrial Properties Rental Index is currently at 97.7, a level not seen since the beginning of FY16. The rising rental index has mostly been driven by the multiple-user factory and warehouse segments.
- The multiple-user and warehouse rental indices are currently at 96.9 and 92.8, respectively. The last time both rental indices were this high was between FY15 and FY16.
- Single-User Rental Index is currently at 101.1, the highest level since mid-FY16.
- The Business Parks Rental Index peaked at 113.3 at the beginning of FY20 and has currently hit 114.1, the highest level since FY10.

Key Charts – Industrial Sector

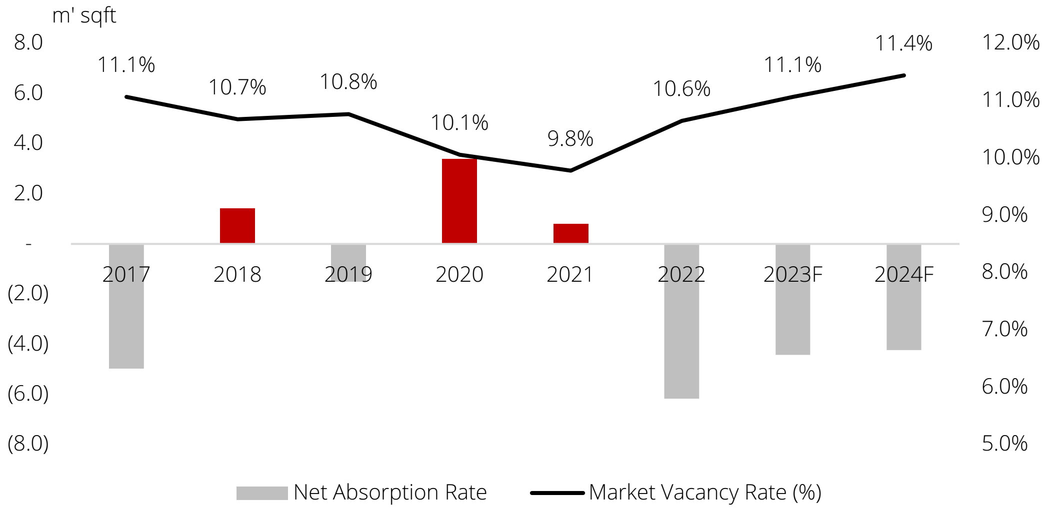
Bumper crop of new supply expected to continue into FY23F



Source: JTC Corporation, DBS Bank

- A total of c.1.8m sqm of new industrial space is expected to be added to the market in FY23, the largest supply to be added in the past five years. This is a result of a rollover in project completions from the last three years, as the COVID-19 pandemic led to construction delays and disruptions to supply chains.
- As compared to the start of FY22, it seems like the completion of c.1.0m sqm of new supply has been rolled over to FY23, even as construction delays and supply chain disruptions ease.
- Slightly more than 1.3m sqm of new supply was completed in the whole of FY22. This was the highest level of completion seen in over four years.
- Approximately 1.8m sqm of new supply is expected to be delivered in FY23, with the single-user factory space contributing 49%, likely to have been developed by industrialists for their own use.
- Delivery of new warehouse space in FY23 will constitute 28% of the supply, potentially easing the strong demand seen in FY21 and FY22.
- Multiple-user factory space and business parks make up another 23% of the upcoming supply.
- Take-up of multiple-user and warehouse spaces has been healthy so far in FY21 and FY22 with positive net absorption, despite the delivery of new stock. However, the spike in supply expected in FY23 may put some pressure on occupancy and rental rates going forward.

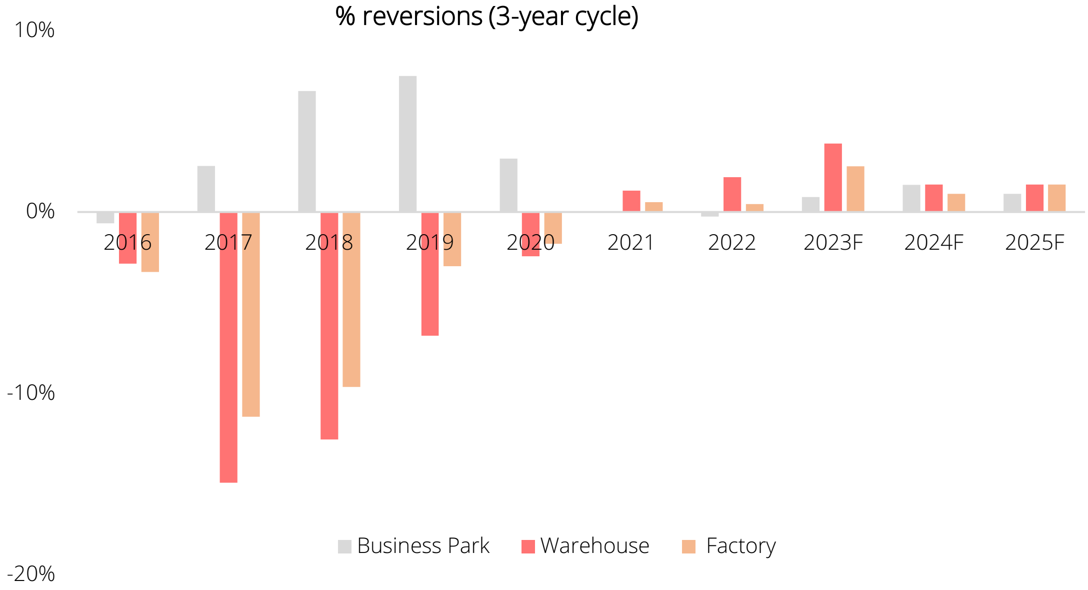
Spike in new supply in 2022 led to negative net absorption



Source: JTC Corporation, DBS Bank

- Net absorption in FY20 and FY21 were 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 the amount seen in FY20, pent-up demand and expansion needs led to a slightly positive net absorption in FY21.
- The positive net absorption in FY21 came from the multi-user factory and warehouse segments, partially offset by the negative net absorption from the single-user factory and business park segments.
- With the spike in new industrial supply (c.1.3m sqm) that hit the market in FY22, we saw negative net absorption. The negative net absorption was mainly contributed by the single-user factory segments, while the other segments like warehouse and business parks reported a slowdown in take-up.
- In the medium term, we expect net absorption to continue to stay in negative territory, leading to the softening of occupancy and rental rates, unless demand in FY23 surprises on the upside.

Rental reversion trend expected to remain healthy in the coming years

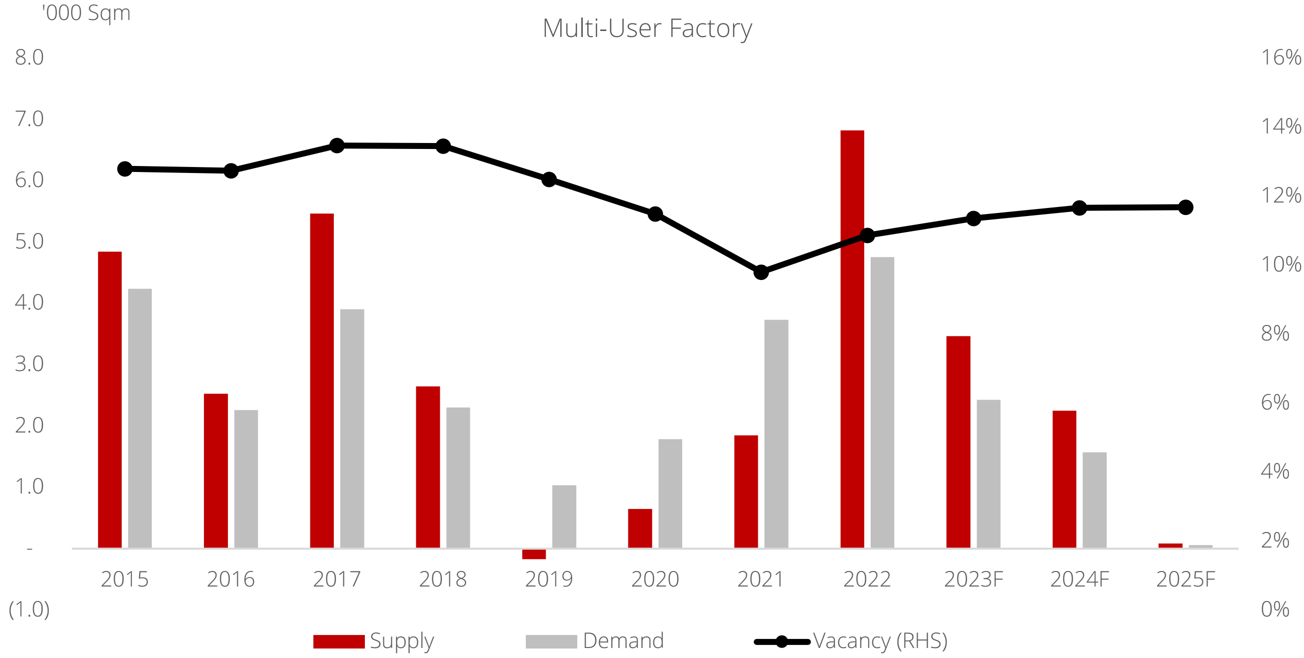


Source: JTC Corporation, Urban Redevelopment Authority, DBS Bank

- After several years of negative rental reversions (three-year cycle) for the factory and warehouse segments, the trend reversed in FY21.
- Positive rental reversions for business parks have been tapering off in the past two years and was slightly negative in FY22. However, we expect the trend to reverse in FY23 due to limited new supply.
- The positive rental reversion cycle continued into FY22 for the warehouse and factory segments, owing to strong demand, despite the pick-up in the increase of 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.
- 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 in rentals for the warehouse segment, and we believe its outperformance will continue through to the coming years.

Industrial Sub-sector – Multi-User Factory

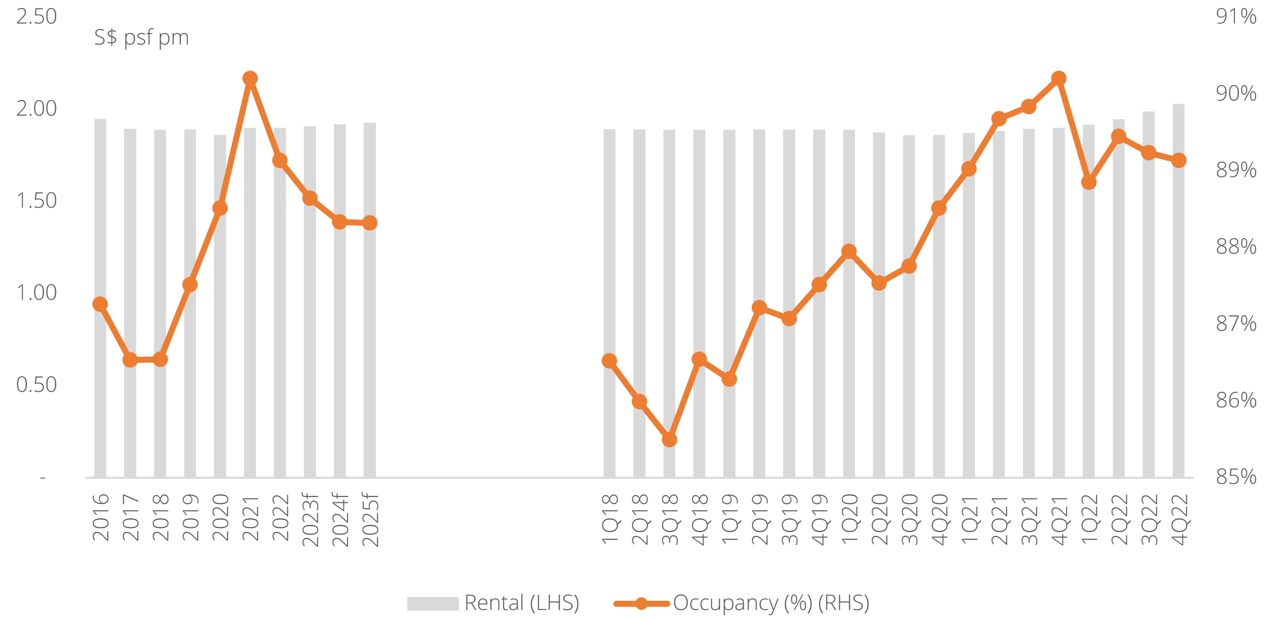
Multi-user factory supply: Supply spike in 2022 due to construction delays in previous two years



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%, only a 100bps increase.
- The sudden spike in both supply and demand in FY22 was likely a result of construction delays over the past three years and pent-up demand from businesses waiting to occupy the newly completed projects. Although we saw a slight increase in vacancy rates in FY22, overall occupancy is still at a very healthy level, the strongest seen in over a decade.
- We are expecting another year of healthy supply for the multi-user factory space, with an estimated 322,000sqm of new supply projected to come online in FY23. Demand is also expected to taper off, as we believe most of the pent-up demand has already been satisfied.
- We could see a slight increase in vacancy rates unless demand picks up and available stock is backfilled at a faster pace.

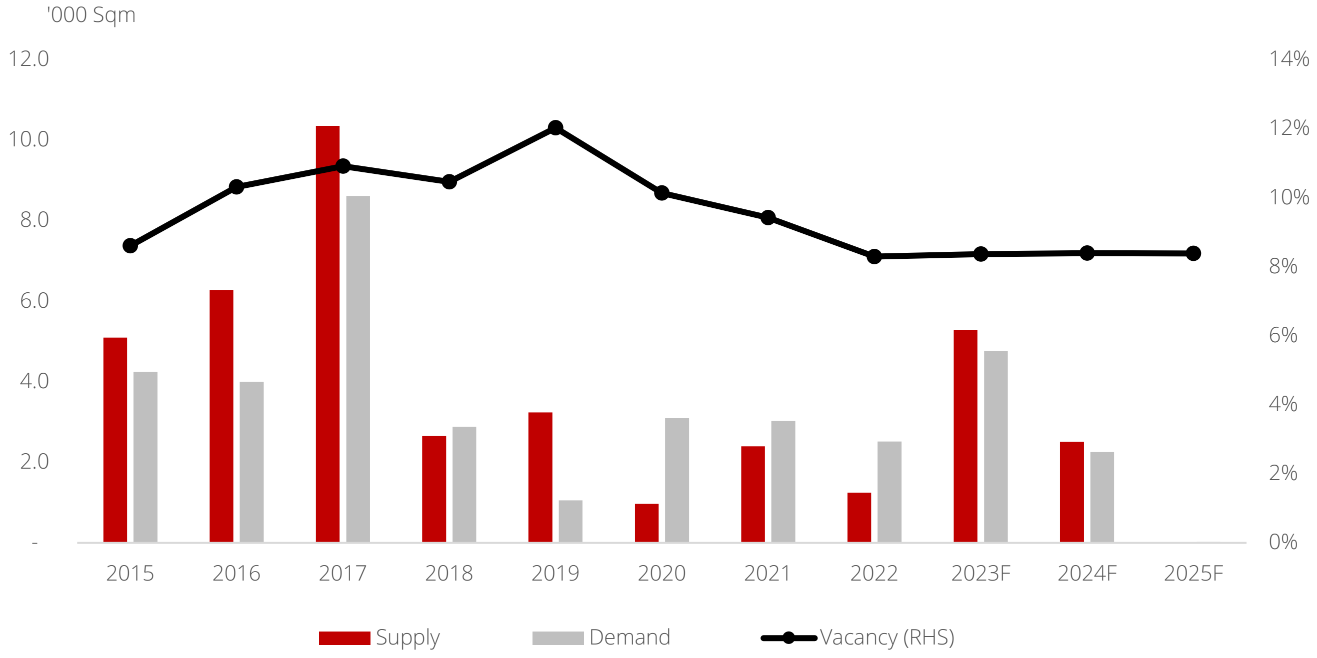
Multi-user factories: Surprise rebound in occupancy rate despite delivery of more stock



Source: JTC Corporation, Urban Redevelopment Authority, DBS Bank

- Rentals surprised on the upside with a c.6.9% increase despite the spike in new supply delivered. This was likely due to cost inflation as well as higher rents that the newer multi-user factory commands.
- As anticipated, occupancy rates dipped slightly due to the spike in delivery of new supply. Occupancy rates dipped 110bps in FY22 to c.89.1%, but this is still at a multi-year high. Aside from the past three years (where new supply was constrained by construction delays), occupancy rates are currently at a level last seen in FY13.
- We expect some downward pressure in occupancy rates going ahead, as the market has to gradually backfill the bumper crop of new supply in FY22. Rents could also see some downward pressure, but we believe it will remain relatively sticky in the near term.
- However, occupancy and rents could surprise on the upside if there is any further slowdown in construction, and new supply continues to be rolled over to the following years.

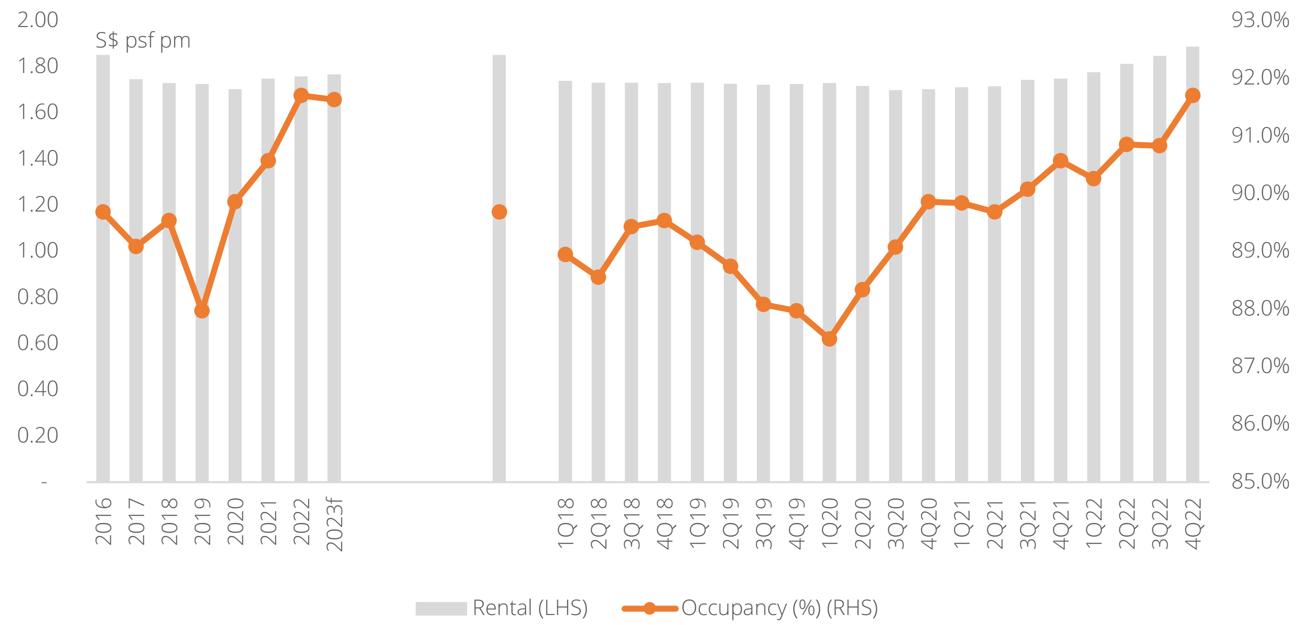
Warehouses: Logistics sector driving demand for warehouses



Source: JTC Corporation, Urban Redevelopment Authority, DBS Bank

- Delivery of new warehouse supply slowed down in FY22 to only c.116,000sqm. Aside from FY20, this has been the slowest pace of new supply delivered in the past decade.
- With the logistics sector's continued expansion in FY22, demand remained relatively healthy and we saw a strong backfilling of available space in the market. Vacancies declined sharply in FY22 to c.8.3%, 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 FY23, we believe occupancy rates will remain relatively stable with the continued strong demand for modern warehouses.

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

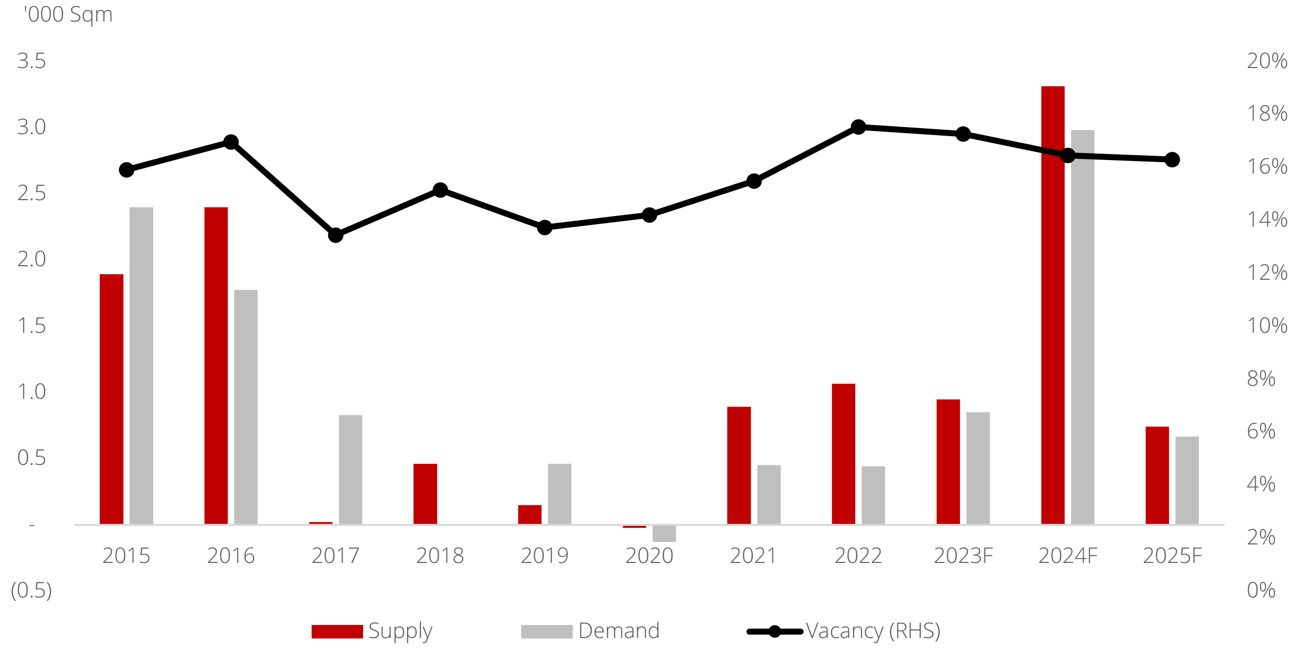


Source: JTC Corporation, Urban Redevelopment Authority, DBS Bank

- 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 growth of the logistics sector.
- Riding on the surge in demand for storage and delays in completion of new supply, occupancy rates continued to inch up by 1.1% to c.92% in FY22.
- Rents also continued to pick up together with the improving occupancy rates, and rents are currently at levels not seen since FY16.
- Although some new supply is expected to come online in FY23, we expect overall warehouse occupancy and rental rates to continue inching up, driven by the continued expansion in the logistics sector.
- 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 face stiff competition.

Industrial Sub-sector – Business Parks

Majority of business park space has been pre-committed



Source: JTC Corporation, Urban Redevelopment Authority, DBS Bank

- Even though there has been some addition to the supply of business parks in FY22, demand was also relatively healthy, as most of the new projects were pre-committed; and also due to the lack of new supply over the past two years.
- Even though vacancy rates inched up by 200bps to c.17.5% currently, we believe the available space will be gradually taken up over the course of the year.
- Looking ahead, the limited new supply of business park space in FY23 should lead to an improvement in occupancy rates as technology, biomedical, and consumer goods tenants continue to drive demand.
- 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.

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