

Singapore Industrial: Staying ahead

Insights & Recommendations













Singapore's industrial property market continued its recovery into H1 2021, with the JTC rental and price indices increasing 1.1% HOH and 2.7% HOH respectively. Our outlook for H2 2021 remains optimistic, as we forecast Warehouse rents to outperform, growing 1.3% YOY in 2021 on sustained demand driven by e-commerce growth.

Investor demand for industrial assets remains strong, particularly for Hi-specs space, Factories and Warehouses. Notably, Single-user factory transactions surged 214% HOH by value.

Occupancy edged up 0.2 ppt to 90.1%, led by Multi-user factories despite a surge in supply (8.5x HOH).

We recommend landlords adopt Industry 4.0 and remodel to higher specifications while being more flexible in lease negotiations.



		H1 2021	Full Year 2021	2021-25 Annual Average
 Demand	Total net absorption grew 58.4% HOH to 5.5 million sq ft in H1 2021, driven by an increase in demand for factories. We remain optimistic on the sector in 2021 as the manufacturing sector continues to recover.	 5.5mn sq ft	 11.1mn sq ft	 10.6mn sq ft
 Supply	Planned supply for 2021 remains high at 1.6x the 10-year historical average, 69% of which comes from factories, although construction delays could potentially avert an oversupply situation.	 5.4mn sq ft	 21.3mn sq ft	 12.3mn sq ft
		QOQ / End H1 2021	YOY / End 2021	Annual Average Growth 2021-25 /End 2025
 Rent	We forecast warehouse-logistics rent to grow 1.3% in 2021 on sustained demand from e-commerce growth. Rents of other industrial segments should also recover along with the economic recovery.	 -0.2% SGD1.22	 1.3% SGD1.23	 1.0% SGD1.28
 Vacancy	We expect overall industrial vacancy rates to rise in 2021 from higher planned factory supply. Vacancy could improve from 2023 onwards as supply tapers off.	 -0.2pp 9.9%	 1.4pp 11.5%	 -0.1pp 10.4%
 Capital Values/ Yields	We expect overall capital values to remain stable, possibly rising for selected prime data centres and logistics properties, due to rising rents. Long term average yields should remain stable at 6.0%.	 0pp 6.0%	 0pp 6.0%	 0pp 6.0%

Source: Colliers. Note: USD1 to SGD1.3444 as of 30 June 2021. 1 sq m = 10.7639 sq ft. "pp" refers to percentage point. Demand and supply on a net lettable area basis. Rental values refer to warehouse-logistics rents. Yields refer to industrial properties with 30-year land leases.

Colliers average monthly industrial gross rents declined 0.4% HOH in H1 2021 due to higher supply, but Warehouse rents did well rising 0.7% HOH.

In 2021, we expect a recovery in the industrial sector along with the overall economic rebound, with Warehouse rents growing the most at 1.3% YOY.

Continued resilience in the industrial market

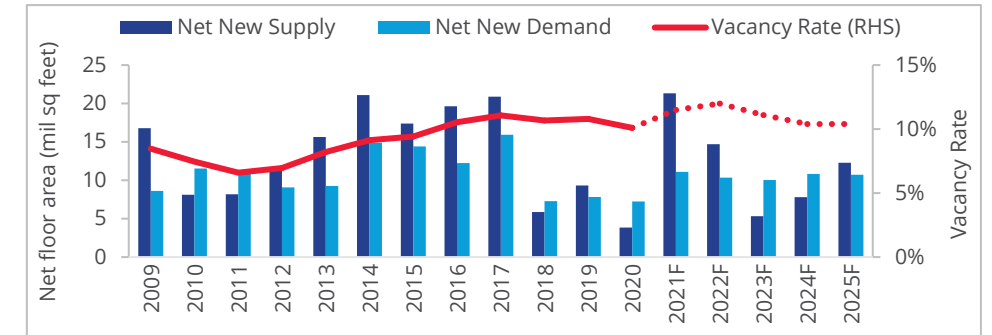
Based on advanced estimates from the Ministry of Trade and Industry (MTI), Singapore's economy jumped 14.3% YOY in Q2 2021 owing to favourable base effects due to the *circuit breaker* from 7 April to 1 June 2020. Manufacturing continued to outperform in Q2 2021, expanding by 18.5% YOY, with growth supported by output expansions in all clusters except for the biomedical manufacturing cluster. Over the next 10 years, Singapore intends to grow its manufacturing sector by 50%, maintaining its contribution at about a fifth of economic output over the medium term.

According to Colliers' research, average monthly industrial gross rents declined 0.4% HOH in H1 2021, as supply jumped 8.5x HOH. Warehouse rents did well rising 0.7% HOH to SGD1.22 (USD0.91) per sq ft, while Business Park rents weakened 1.2% HOH after being the most resilient segment in 2020. Based on data from JTC, all-industrial occupancy improved marginally by 0.2ppts to 90.1% in H1 2021, led by Multi-user factories which saw occupancy rise 1.2ppts HOH to 89.7%, while all other segments saw a drop in occupancy as landlords prioritised rents over occupancy amid a recovery. As supply completions gain momentum, 2021 supply, 69% of which is factory space, looks abundant at 21.3 million sq feet (2.0 million sq metres) barring further construction delays. This is equivalent to 1.6x the 10-year historical average as factory supply is scheduled to increase 5.1x YOY. As such, we expect all-industrial vacancy to rise 1.4 ppt to 11.5% by end of 2021.

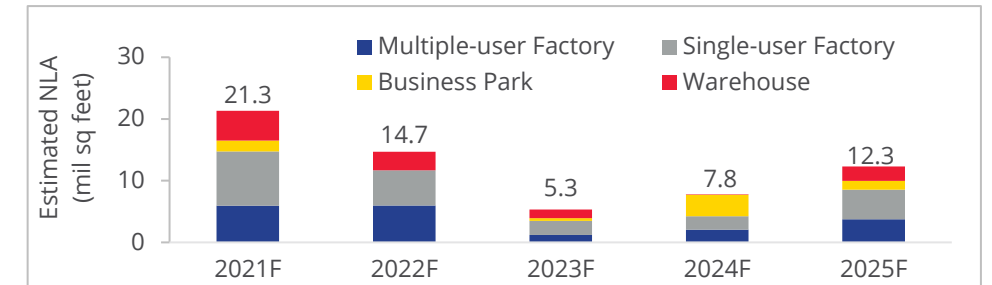
Recovery underway in 2021

In 2021, we expect the industrial sector to recover along with the overall economy, with Oxford Economics forecasting GDP growth of 6.4% in 2021. We forecast sustained warehouse demand to drive 1.3% YOY rental growth, the highest among all segments, led by ramp-up logistics space. Business Park and Factory rents could rise at a slower rate of 0.5% YOY and 0.7% YOY respectively given ample supply. We expect rents of hi-specs space to grow 0.8%, supported by the technology sector.

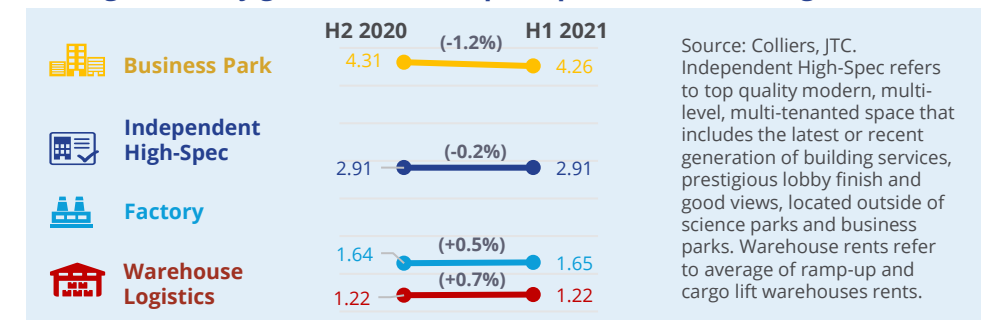
All-industrial new supply, new demand & vacancy rate



Upcoming new supply by type



Average monthly gross rents (SGD per sq ft) and HOH change (%)



The price index for Single-user factories rose 3.1% HOH in H1 2021 on the back of a strong surge in transactions.

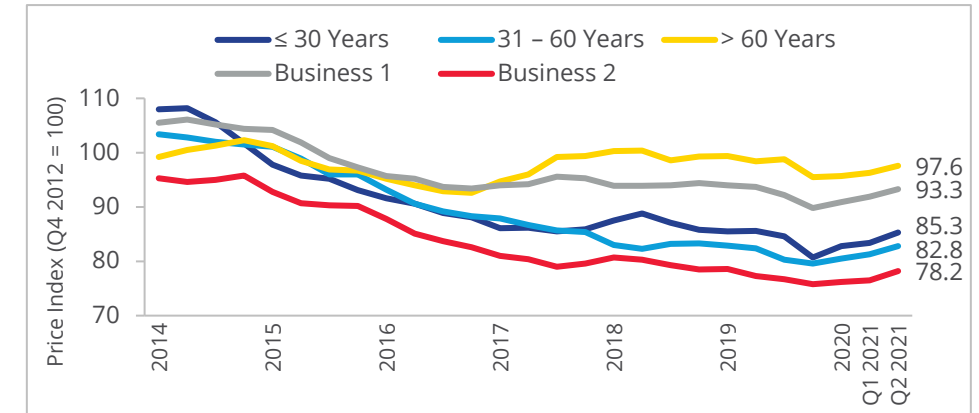
Industrial assets such as hi-specs space, factories and warehouses continue to be in demand, while net yields remained stable at 5.75–6.25%.

Industrial assets remain in demand

According to JTC, the overall industrial price index increased by 2.7% HOH in H1 2021, led by Single-user factories (+3.1% HOH). Notably, transactions of Single-user factories, a laggard in H2 2020, jumped 214% HOH in value and 50% HOH in number of caveats, reflecting some pent-up demand. Meanwhile, Multi-user factory median prices declined 2.7% HOH in H1 2021 to SGD392 (USD292) per sq ft while that of warehouses declined 2.2% YOY to SGD528 (USD393) per sq ft.

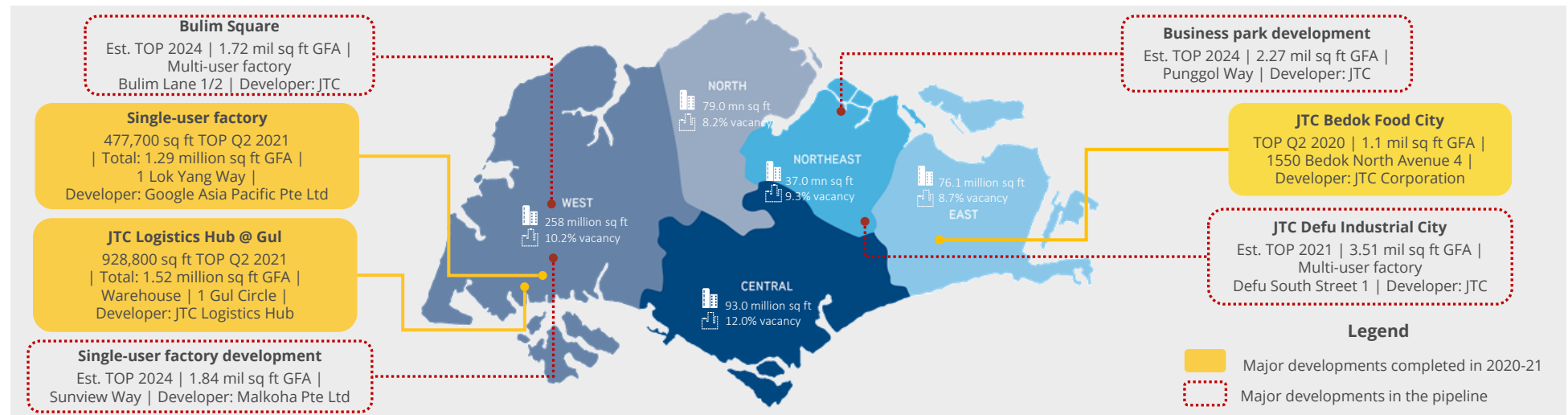
Interest for industrial assets from property funds and REITs continues, particularly in Hi-specs space, Factories and Warehouses. There were a few major deals transacted in H1 2021, including the establishment of Boustead Industrial Fund and Ascendas REIT's purchase of a 75% stake in Galaxis. According to Colliers Valuation and Advisory Services (CVAS) team, cap rates for Singapore industrial properties remained unchanged in H1 2021, at 5.75–6.25%.

Price index of multiple-user factory by zoning and remaining tenure



Source: Colliers International, JTC. Note: Business 1 (B1) zoning is intended for light and clean use. Business 2 (B2) zoning may be used for heavy industries that have a greater environmental impact.

Stock and vacancy by planning regions as of June 2021, and selective recent completions and future supply



Source: Colliers, JTC. Note: Figures on the map refer to existing stock and vacancy across all industrial property types in each region. TOP = Temporary Occupation Permit.



Primary Author:

Shirley Wong

Senior Associate Director | Research |
Singapore
+65 6531 8567
shirley.wong@colliers.com

For further information, please contact:

Raphael Lee

Associate Director | Industrial Services | Singapore
+65 6531 8583
raphael.lee@colliers.com

Donald Goh

Senior Director | Capital Markets and Investment Services |
Singapore
+65 6531 8686
donald.goh@colliers.com

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