

Industrial

savills



Industrial rents continue trending upwards

Warehouse logistics remains one of the most resilient segments.

- Although leasing volume in Q1/2022 continued to increase, the rate of change has slowed to 3.5% year-on-year (YoY).
- Savills' average monthly rent for prime multiple-user factories increased by 3.6% quarter-on-quarter (QoQ) to S\$1.90 per sq ft with prime warehouse and logistics properties falling marginally by 0.7% QoQ to S\$1.45 per sq ft in Q1/2022.
- Strata industrial sales activity remained relatively stable with 423 transactions in Q1/2022, compared to 460 in Q1/2021.
- Savills' basket of industrial properties showed that prices for freehold properties increased by 1.1% QoQ to S\$729 per sq ft while 60-year leaseholds rose by 0.9% QoQ to S\$447 per sq ft in Q1/2022.
- From Savills' basket of industrial properties, 30-year leasehold industrial properties increased at a faster pace of 3.5% QoQ to S\$305 per sq ft in Q4, ending six consecutive years of price decline.
- Coupled with the scarcity and steady demand in Mapletree Business City and one-north regions, Savills' prime business park monthly rents rose by 0.6% QoQ to S\$5.89 per sq ft. Meanwhile, Savills' standard business park properties monthly rents slipped by 0.1% QoQ to S\$4.00 per sq ft in Q1/2022.
- The average monthly rent for Savills' high-spec industrial basket increased by 1.4% QoQ to S\$3.61 per sq ft in Q1/2022.
- The inability of industries to fully pass on the cost of price increases due to supply chain disruptions is capping rental increases and we are forecasting rents for multiple-user factory space to rise by up to 2% YoY while warehouse & logistics space may be limited to up to 5% YoY.

“The inability of industries to fully pass on the cost from supply chain disruptions to customers is constraining rental increases.”

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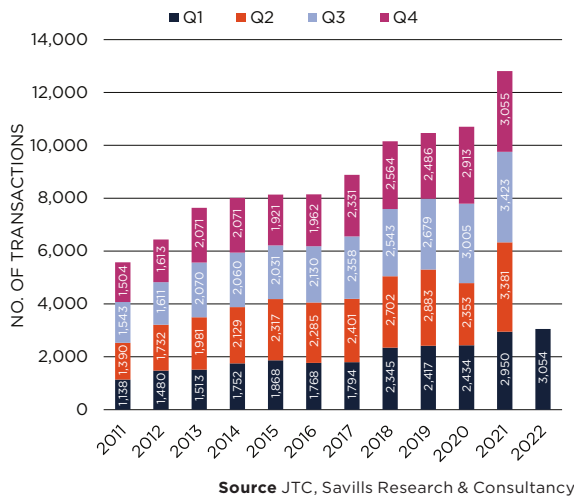
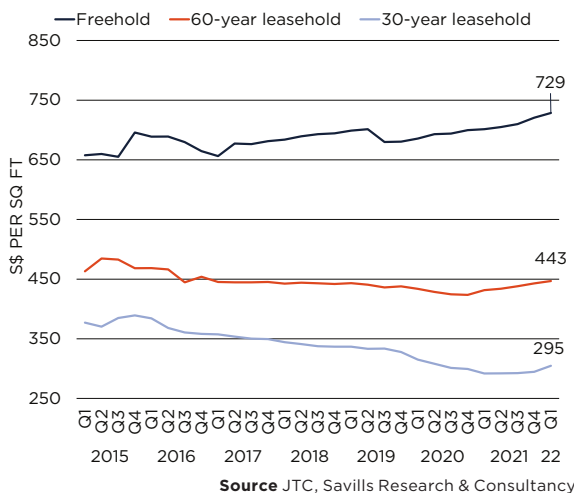
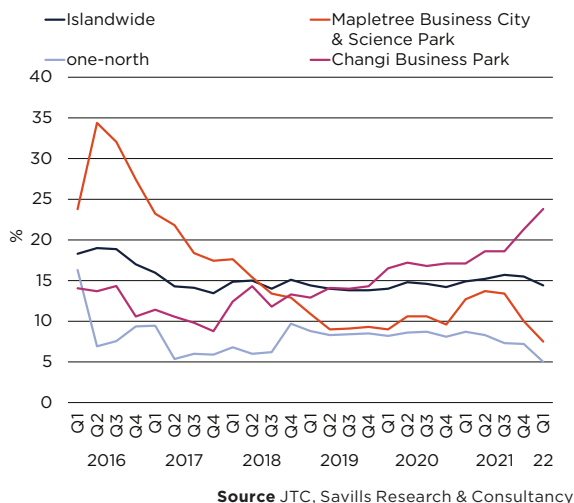
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GRAPH 1: Factory and Warehouse Leasing Volumes, 2011 to Q1/2022**GRAPH 2: Prices of Upper-Storey Strata Factory and Warehouse Units, Q1/2015 to Q1/2022****GRAPH 3: Business Park Space Vacancy Rates, Q1/2016 to Q1/2022****MACROECONOMIC OVERVIEW**

According to the Ministry of Trade and Industry (MTI), Singapore's economy expanded by 3.7% year-on-year (YoY) in Q1/2022, with uplift from the manufacturing, finance and insurance, and professional services. While the services-producing industries grew by 4.2% YoY in Q1, overall economic growth was led by the 6.3% YoY recovery in the goods-producing industries. Alongside a robust expansion of 2.1% YoY for the construction sector, manufacturing grew significantly by 7.1% YoY.

The manufacturing sector has ended the first quarter with growth moderation, with the Purchasing Managers' Index (PMI) dipping from 50.7 in December to 50.1 in March. The Russia-Ukraine conflict created a fallout with rising energy costs, supply chain disruptions and inflationary pressures on many fronts, clouding market sentiments and business planning. The growth in Singapore's key exports also slowed down, with non-oil domestic exports (NODX) rising 7.7% YoY in March, compared to 18.4% in December.

RENTAL MARKET

The quarterly leasing volume¹ continued to increase, rising to 3,054 transactions in Q1/2022. However, the pace of growth slowed to 3.5% YoY. While single-user factory segment remained the key demand driver of the industrial rental market, the YoY growth in tenancies signed moderated from 63.0% in Q4/2021 to 39.7% in Q1/2022. The multiple-user factory and warehouse segments continued to see steady take-up from digital and creative firms, as well as ecommerce and third-party logistics (3PL) companies.

As most small and medium-sized enterprises (SMEs) generally prefer prime locations, the vacancy rate for multiple-user factory spaces in the Central Region fell to its lowest level (9.0%) of the last nine years. Despite the increase in overall occupier demand (+724,000 sq ft) in Q1/2022, the island-wide vacancy for multiple-user factory spaces of 11.2% has not been higher since Q4/2020. This was largely due to the addition of new supply from the partial completion of JTC Defu Industrial City. Meanwhile, the vacancy rate for single-user factories and warehouses remained relatively firm in Q1/2022, inching up to 9.6% (+0.2 ppt QoQ) and 9.7% (+0.3 ppt QoQ) respectively.

Compared with the previous quarter, rents continued to increase across all industrial segments in Q1/2022. The JTC's rental index for factory hit a post-2017 record and the Savills' average monthly rent for prime multiple-user factories² increased by 3.6% QoQ to S\$1.90 per sq ft in Q1/2022. Although

the JTC's rental index for warehouses rose, the Savills' average monthly rent for prime warehouses and logistics properties³ recorded a marginal decline of 0.7% QoQ to S\$1.45 per sq ft in Q1/2022. While landlords of modern warehouse facilities are still holding up their rental expectations, the overall rental decline was largely due to the decrease in rents in some of the strata-titled warehouse properties in our basket.

SALES MARKET

Strata industrial sales activity⁴ fell 8% from 460 transactions in Q1/2021 to 423 transactions in Q1/2022. Notwithstanding the decline in sales, this is still well above the historical five-year average sales (279 caveats). The steady sales momentum was likely backed by local SMEs which acquired multiple-user factory and warehouse properties for their own business operations, especially those in the electronics, manufacturing, biomedical, healthcare, ecommerce, and last mile transportation services.

Savills' basket of industrial properties showed that prices for freehold properties increased by 1.1% QoQ to S\$729 per sq ft while that of 60-year leasehold units rose by 0.9% QoQ to S\$447 per sq ft in Q1/2022. From Savills' basket of industrial properties, 30-year leasehold industrial properties increased by a faster pace at 3.5% QoQ to S\$305 per sq ft in Q4, ending six consecutive years of year-on-year price declines. The overall price growth could be backed by ample liquidity in the market.

BUSINESS PARK AND HIGH-SPEC INDUSTRIAL

The island-wide vacancy level for business park space fell by 1.1 ppt QoQ to 14.4% in Q1/2022, the lowest since Q4/2020. Owing to the healthy take-up rate of prime business park developments such as Mapletree Business City and one-north, the vacancy rate in the Central Planning Region eased further by 2.3 ppts QoQ to a record low at 6.2% in Q1/2022. Coupled with the scarcity and steady demand in Mapletree Business City and one-north regions, Savills' prime business park⁵ monthly rents rose by 0.6% QoQ to S\$5.89 per sq ft.

While the vacancy rate in the West Planning Region fell by 1.8 ppt QoQ to 28.1% in Q1/2022, that in the East Planning Region continued to worsen to 24.2% (+2.3 ppts QoQ) due to softer demand from ESR Bizpark @ Chai Chee and Changi Business Park. To attract tenants to fill up the vacancy,

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 24 May 2022.

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.

some landlords of non-prime business park developments generally maintained their rental expectations. Hence, Savills' standard business park properties⁶ monthly rents slipped by 0.1% QoQ to S\$4.00 per sq ft in Q1/2022.

What was interesting was that some firms upgraded from flatted factories to more prime and accessible high-spec industrial developments and yet managed to achieve rental savings by rightsizing and consolidating operations from various locations. Particularly, new high-spec industrial projects such as UBIX and other well-located developments continue to experience good take-up rates. These market movements could have helped generate rental growth, resulting in an increase of 1.4% QoQ in the average monthly rent for Savills' high-spec industrial basket⁷ to S\$3.61 per sq ft in Q1/2022.

OUTLOOK

In the face of more economic challenges such as high inflation and the worldwide energy crunch, the Russia-Ukraine conflict has clouded the early-2022 optimistic outlook for Singapore's post-COVID recovery. While the immediate impact on the local economy has been manageable, the longer-term impact of the conflict on Singapore's economy will depend on how the situation unfolds.

Notwithstanding the global headwinds, industrial and logistics emerged as one of the most

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.

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
2022F	1.0% to 2.0%	2.0% to 5.0%

Source Savills Research & Consultancy

resilient segments across the various real estate industries. In particular, demand for modern warehouse facilities and high-specification industrial facilities is likely to sustain. Some of the upcoming modern warehouse developments saw healthy pre-commitment levels. For instance, 2 Pioneer Sector 1 (2PS1) is already more than 70% pre-committed from tenants in the Fast-Moving Consumer Goods (FMCG), e-commerce and third-party logistics (3PL) industries. As the supply of modern warehouse facilities with quality specifications is expected to remain limited in the near term due to construction delays, demand for such high-specification facilities is expected to hold up overall rental growth.

Nonetheless, industrialists may generally be more cautious with their expansion plans alongside the global semiconductor supply crunch and heightened uncertainty. Considering rising labour costs and elevated commodity prices, higher business costs could curtail manufacturing activity and any expansion of footprint. While

multiple-user factory rents are expected to see some recovery this year, warehouse and logistics real estate is expected to better weather the increased downside risks and negative feedback effects arising from the Russia-Ukraine crisis. As such, rents for prime warehouse properties is forecast to grow by up to 5% this year, with the demand for modern warehouse facilities coming from new economy industries likely to stay firm.

Taking the abovementioned factors into account, rent for prime multiple-user factory and warehouse & logistics properties is forecast to grow by up to 2% and 5% respectively in 2022.