> “ *With about 18.5 million sq ft of completions expected in 2021, factory prices and rents are expected to decrease moderately next year.* ”

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Singapore Research

Industrial

Q4 2020

THE INDUSTRIAL MARKET PULLED THROUGH A COVID-19 YEAR RELATIVELY UNSCATHED

MARKET SNAPSHOT

1,562 LEASES
1.0% ▼ Q-O-Q | 16.8% ▲ Y-O-Y
NUMBER OF TENANCIES[1]

S$559.1 MILLION
35.7% ▼ Q-O-Q | 5.7% ▼ Y-O-Y
TOTAL INDUSTRIAL SALES

53.8 MILLION SQ FT GFA
UPCOMING NEW SUPPLY (Q4 2020 TO 2024)

Industrial growth maintained in Q4 2020

- Based on advance estimates by the Ministry of Trade and Industry (MTI), the Singapore economy contracted by a lesser 3.8% year-on-year (y-o-y) in the fourth quarter when compared to Q2 and Q3 2020. This brings the total decline in the overall gross domestic product (GDP) for the year 2020 to 5.8%. The improved performance in Q4 2020 was led by the manufacturing sector which grew by 9.5% y-o-y, primarily driven by output expansions in the electronics, biomedical manufacturing and precision engineering clusters, offsetting declines in the transport engineering and general manufacturing clusters.

- The Singapore Purchasing Managers' Index (PMI) reported continued expansions in Q4 2020, with the latest month of December tracking an expansion of 50.5. Simultaneously, the Electronics Sector PMI for the same month registered a reading of 51.2, the highest since September 2018. The continued adoption of the 5G network as well as other high-end electronic parts and components are expected to fuel the demand for electronics. Together with the news of COVID-19 vaccine distribution and improved sentiment, economic recovery remains on track in 2021.

Median rents contracted marginally in Q4 2020

- The median rent for multiple-user factory spaces island-wide in the fourth quarter stood at S$1.73 per-square-foot per month (psf pm), declining 3.1% quarter-on-quarter (q-o-q) and by a more marginal 0.9% y-o-y (Exhibit 1). The leasing volume of 1,562 transactions (S$6.2 million) for such industrial space in October and November represented an increase of 16.8% from 1,337 transactions in the same period last year, as activity returned to this market segment despite the current external headwinds.

- Prices of multiple-user factory space were fairly steady in the fourth quarter, averaging about S$357 psf, representing a decrease of 3.8% y-o-y. Units with 61 to 99 years left in the lease registered the largest growth of 19.0% y-o-y to average S$379 psf in Q4 2020, with demand for these spaces fuelled by the comparatively lower availability of multiple-user factory units with longer tenures (Exhibit 2).

The trend of vertical farming in industrial properties

- In light of global food supply uncertainties brought about by the pandemic, there were more initiatives to support the agri-food industry in Singapore in order to create some level of self-sufficiency. The Singapore Food Agency (SFA) introduced the “30x30 Express” grant earlier in April 2020 to boost local food production in hopes that by 2030, 30% of the city-state's nutritional needs would be produced domestically. This move to encourage more indoor farming requiring less space to grow crops as well as to ensure food security would generate additional demand for suitable industrial properties that can provide the facilities to support high-rise vertical farming and high-density agricultural production through new technologies.

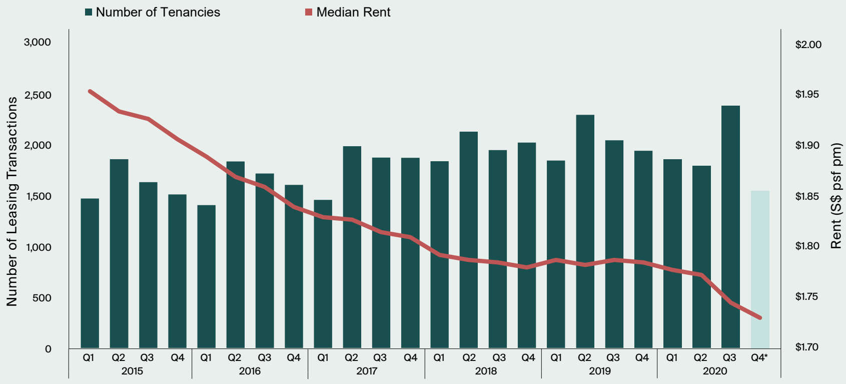
Market outlook

- From Q4 2020 to 2024, some 53.8 million sq ft gross floor area (GFA) of industrial space is slated to be completed. Of these, about 43.2% of the upcoming supply is expected to be completed in 2021, with a significant proportion being multiple-user and single-user factory spaces. Coupled with the phased withdrawal of government fiscal support for businesses, multiple-user factory prices and rents are likely to come under pressure, falling by not more than 5% in 2021 while single-user factories could fare slightly better.

- However, with the anticipated distribution of viable COVID-19 vaccines, the city-state's strategic location and developed IT infrastructure would position

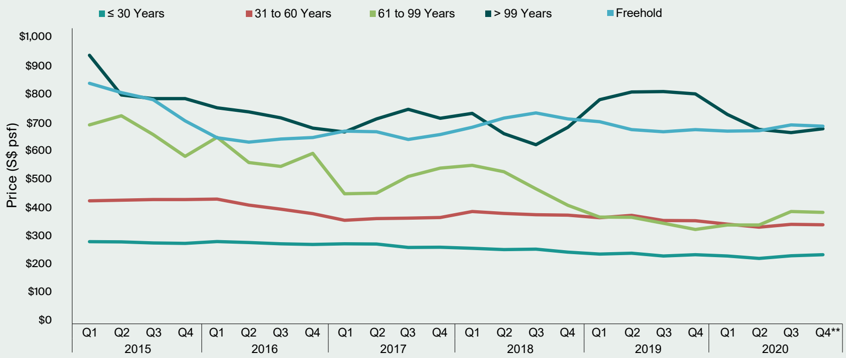
[1] *The percentage changes for the total number of tenancies of multiple-user factory space in October and November 2020 are based on a two-month comparison q-o-q (against July and August 2020) and y-o-y (against October and November 2019).*

Exhibit 1: Leasing Volume and Median Rent of Multiple-User Factory Space



Source: JTC J-Space, Knight Frank Research
Note: The median rent is based on a four-quarter moving average.
*Q4 2020 data based on October and November 2020 data as at end-December.

Exhibit 2: Average Price of Multiple-User Factory Space by Balance Tenure*



Source: JTC J-Space, Knight Frank Research
Note: The average unit price is based on a four-quarter moving average of strata transactions.
*The balance tenure is based on the number of remaining years at the point of transaction.
**Q4 2020 data based on transactions downloaded as at 29 December 2020

Singapore as a key warehousing and storage hub, and logistics properties are expected to benefit with price and rent increases ranging from 1% to 3% in 2021. Especially so, for cold-storage facilities that cater to the requirements of housing the temperature-controlled vaccine.

- While business sentiment has improved with the release of the vaccine, cautious optimism remains and Singapore needs to be prepared for possible recurring infections. Therefore, the production of hygiene- or health-related products such as hand sanitisers, masks as well as gloves remains necessary, maintaining the demand for industrial spaces geared towards the production and stockpiling of these essentials.

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