

“There are growing opportunities for expansion as industrial property owners restructure and recycle capital, paving the way for the development of high-value-added facilities.”

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Singapore Research

Industrial

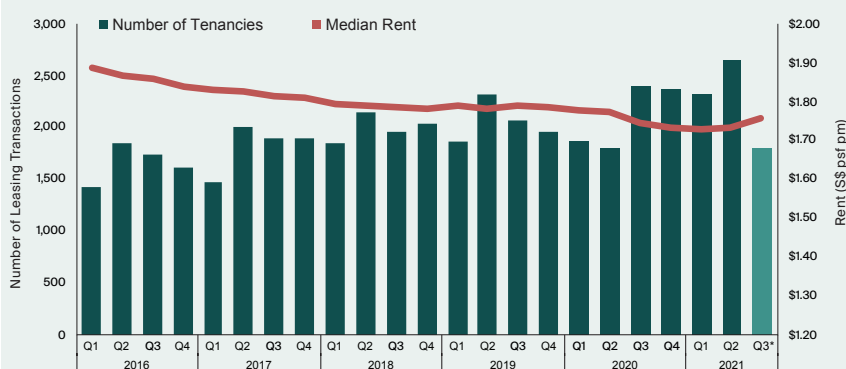
Q3 2021

STEADY INCREMENTAL IMPROVEMENT IN THE INDUSTRIAL REAL ESTATE SECTOR

Manufacturing sector going strong

- Based on the Ministry of Trade and Industry's (MTI) Q2 2021 economic survey, Singapore's economy grew 14.7% year-on-year (y-o-y) in the second quarter of 2021. On a quarter-on-quarter (q-o-q) seasonally-adjusted basis, Singapore's economy actually contracted by 1.8% in Q2 2021, compared to the 3.3% q-o-q expansion recorded in the first quarter of 2021.
- Manufacturing continued to drive the recovery in Singapore, as semiconductor manufacturers and sub-contractors supporting electronics firms reaped the benefits of the global chip shortage. The precision engineering and electronics clusters recorded 24.3% and 18.3% y-o-y growth respectively. These numbers were overshadowed by the impressive growths seen in the transport engineering and chemicals clusters, which recorded 29.6% and 20.1% y-o-y growth respectively, although this was largely the result of the low base effects in 2020.
- In September, the Singapore Purchasing Manager's Index (PMI) recorded an expansion of 50.8 representing 15 consecutive months of expansion for the industrial sector, but a slight decline from the two-year high of 51.0 recorded in July.

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.
*Q3 2021 data based on July and August 2021 data as at end-September.

Median rents turned the corner in Q3 2021

- In Q3 2021, the island-wide median rent of multiple-user factory space grew for the first time in two-years, expanding by 1.6% q-o-q to reach \$1.80 per square foot per month

MARKET SNAPSHOT

2,412 LEASES
4.2% ▲ Q-O-Q | 19.6% ▲ Y-O-Y
NUMBER OF INDUSTRIAL TENANCIES¹

\$592.1 MILLION
-35.8% ▼ Q-O-Q | -35.5% ▼ Y-O-Y
TOTAL INDUSTRIAL SALES

53.0 MILLION SF GFA
UPCOMING NEW SUPPLY (Q3 2021 TO 2025)

(psf pm) (Exhibit 1). Monthly rental activity remained strong, recording a total of 1,809 rental transactions in July and August, representing an increase of 14.7% y-o-y from the 1,577 rental transactions in the same period last year, and a marginal increase of 0.4% from the 1,801 transactions in April and May 2021.

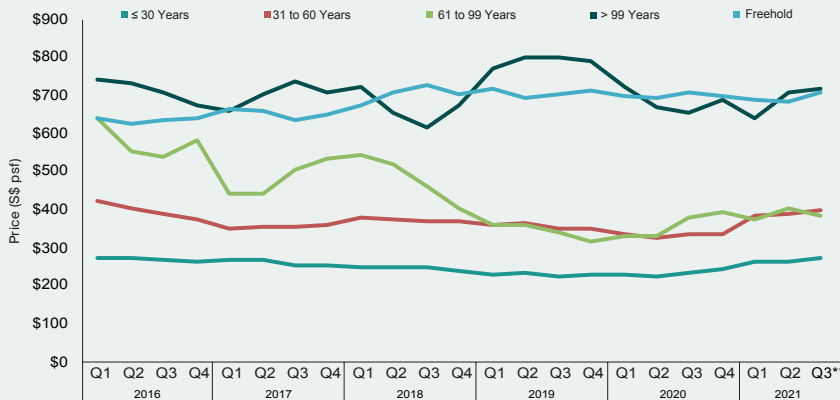
- Transactional activity in the multiple-user factory segment hit a lull in Q3 2021, with transactions totalling some \$309.5 million, led by the \$11 million sale of a 10,000-sf freehold strata unit in Ann Chuan Industrial Building. Prices generally remained stable in Q3 2021, averaging about \$414 psf on the back of sustained industrial activity (Exhibit 2).

- Although recent transactions have generally comprised properties with smaller quantum, more sizable deals are in the works. According to the Knight Frank Capital Markets team, larger sellers are taking advantage of improving industrial market sentiments to carry out previously planned asset disposals, using the opportunity to liquidate underutilised industrial properties. Despite the uptick in interest, it might take some time for such transactions to be reflected as these typically take around 10 to 12 months to complete.

Continued on next page

¹ The percentage changes for the total number of tenancies of all industrial space in July and August 2021 are based on a two-month comparison; q-o-q (against April and May 2021) and y-o-y (against July and August 2020).

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.
 **Q3 2021 data based on transactions downloaded as at 1 October 2021.

Growing food in urban Singapore

- In accordance with the government's bid to produce 30% of Singapore's nutritional needs domestically, further investments were made in the domestic food and agri-tech industries. In September, top Japanese egg producer ISE Food Holdings signed a memorandum of understanding with the Singapore Food Agency to invest S\$100 million to build Singapore's fourth egg farm. Construction is expected to begin in 2022, with facilities progressively opening from 2024 onwards.
- Alternative protein production also continued to gain traction in Singapore in Q3. Esco Aster, a Singaporean contract development and manufacturing organisation, gained approval and started production of cell-cultured chicken at their Ayer Rajah Crescent facility in July. In the same vein, Chinese biotech firm Avant announced the development of a pilot production facility for cultivated fish cells in September. The research laboratory will be located in Biopolis and is expected to begin operations by 2022.

Market outlook

- Sustained demand for pandemic-era goods, such as bio-technology components, healthcare and sanitary goods, as well as electronics components for the pandemic-induced digital transformation, will continue to draw high-value-added manufacturing investment to Singapore.
- While the amount of upcoming industrial space has dropped to 53.0 million sf gross floor area (GFA) by end 2025, new supply remains substantial, with 18.8 million sf GFA and 17.3 million sf GFA expected to complete in 2021 and 2022 respectively. Nevertheless, healthy sustained demand and strong global manufacturing investment interest should allow rents to increase moderately between 1% and 3% for the whole of 2021 as expected. As Singapore stabilises from the fallout of the pandemic, factory prices and rents could potentially increase by 3% to 5% in 2022.

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