Singapore – March 2022

MARKET IN MINUTES
Savills Research

Industrial

savills

Industrial prices and rents in recovery mode

Industrial supply expected to remain limited due to construction delays.

- Leasing volume increased by 4.9% year-on-year (YoY) to 3,055 transactions in Q4. This brings the total annual leasing volume to a record level at 13,081, 18.8% higher than that in 2020.

- The Savills' average monthly rent for prime multiple-user factories increased by 3.7% quarter-on-quarter (QoQ) to S$1.84 per sq ft in Q4, which is 8.1% higher than a year ago. Savills' average monthly rent for prime warehouse and logistics properties rose at a faster pace of 1.2% QoQ to S$1.46 per sq ft in Q4.

- On a QoQ basis, strata industrial sales activity remained relatively stable at 501 transactions in Q4, bringing the total number of caveats to 1,922 for the whole of 2021 (+52.1% YoY).

- Savills' basket of industrial properties showed that prices for freehold properties increased at a faster pace at 1.5% QoQ to S$721 per sq ft in Q4.

- From Savills' basket of industrial properties, 60-year leasehold prices rose by 1.1% QoQ to S$443 per sq ft. Similarly, Savills' basket of 30-year leasehold industrial properties also showed a more significant price increase in Q4, which rose by 0.8% QoQ to S$295 per sq ft.

- In Q4, Savills' prime and standard business park monthly rents rose by 0.9% QoQ to S$5.86 per sq ft and 0.4% QoQ to S$4.01 per sq ft respectively.

- The average monthly rent for Savills' high-spec industrial basket increased again by 0.7% QoQ to S$3.56 per sq ft in Q4, albeit at a moderated pace compared with 1.7% QoQ in Q3.

- Given heightened inflationary pressures arising from supply chain disruptions, rents for prime multiple-user factory and warehouse & logistics properties are forecast to rise by up to 2% and 3% respectively in 2022.

> "Pandemic and now conflict induced disruptions may create the conditions where economic performance suffers but rents and prices rise."
>
> ALAN CHEONG, SAVILLS RESEARCH

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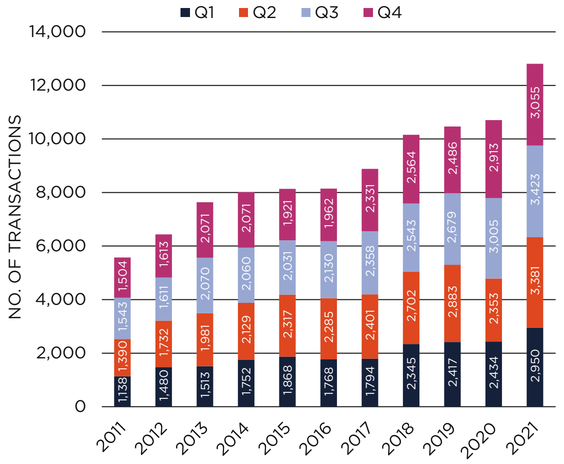
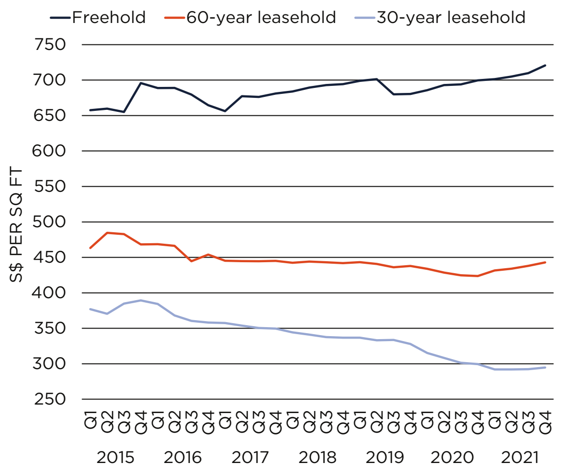
GRAPH 1: Factory and Warehouse Leasing Volumes, 2011 to 2021



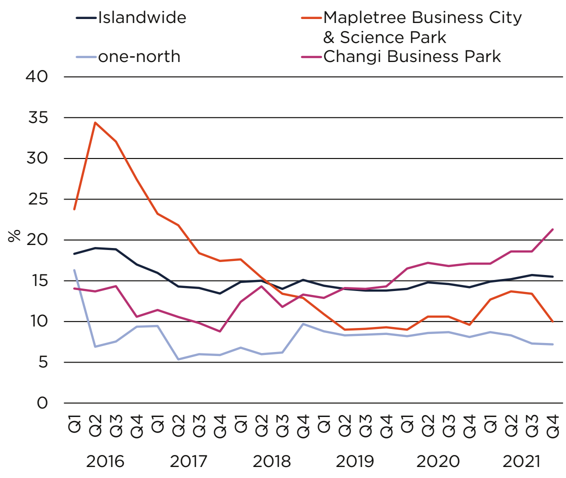
Source JTC, Savills Research & Consultancy

GRAPH 2: Prices of Upper-Storey Strata Factory and Warehouse Units, Q1/2015 to Q4/2021



Source JTC, Savills Research & Consultancy

GRAPH 3: Business Park Space Vacancy Rates, Q1/2016 to Q4/2021



Source JTC, Savills Research & Consultancy

MACROECONOMIC OVERVIEW

According to the Ministry of Trade and Industry (MTI), Singapore's economy expanded by 6.1% in Q4/2021, moderating from the previous quarter's 7.5%. This led to a 7.6% YoY economic growth for the whole of 2021, showing a strong rebound from the 4.1% contraction in 2020. While the services producing industries grew by 5.6% YoY in 2021, the overall economic growth was led by the recovery (13.4% YoY) in the goods producing industries. The construction industry saw a robust expansion of 20.1% YoY while the manufacturing grew significantly by 13.2% YoY.

Singapore manufacturing sentiment ended 2021 on a positive note amid improving global economic conditions. Manufacturing activity grew for the 18th straight month in December, with the Purchasing Managers' Index (PMI) inching up 0.1 point to 50.7. Singapore's key exports also continued growing for the 13th straight month in December, albeit at a slower rate than the previous month. Non-oil domestic exports (NODX) rose 18.4% YoY on the back of healthy demand for electronic products and pharmaceuticals.

RENTAL MARKET

The quarterly leasing volume[1] continued to increase, rising by 4.9% YoY to 3,055 transactions in Q4. This brings total annual leasing volume to record level at 13,081, 18.8% higher than that in 2020. It was mainly lifted by strong leasing demand for single-user factory space which almost doubled from a year ago (+49.3%). This was largely driven by Small Medium Enterprises (SMEs) in the electronics, manufacturing, and pharmaceutical industries, which require larger facilities for their business operations. The multiple-user factory and warehouse segments also saw healthy take-up from digital and creative businesses, as well as ecommerce and third-party logistics (3PL) companies.

Compared with 2020 when leasing demand was largely driven by shorter leases to accommodate the surge in stockpiling, demand was more stable in 2021 as more industrialists committed to longer leases amid improving business sentiment. The vacancy rate for single-user factory and warehouse remained relatively stable in Q4, inching up by 0.1 of a percentage point (ppt) QoQ to 9.4% and 10.0% respectively. With removal of 178,900 sq ft of stock, the vacancy rate for multiple-user factory eased by 0.4 of a ppt QoQ to 9.8% in Q4.

Rents continued to trend up across all industrial segments in Q4, with JTC's rental index for factory and warehouse hitting a record since 2017. The Savills' average monthly rent for prime multiple-user factories[2] increased by 3.7% QoQ to S$1.84 per sq ft in Q4, which is 8.1% higher than a year ago. Savills' average monthly rent for prime warehouse and logistics properties[3] also rose at a faster pace by 1.2% QoQ to S$1.46 per sq ft in Q4.

SALES MARKET

Strata industrial sales activity[4] remained relatively stable at 501 transactions in Q4, compared to 506 in Q3. This brings the total number of caveats to 1,922 for the whole of 2021, 52.1% higher than the previous year. This marked the the highest volume recorded since 2013. While most Multinational Corporations (MNCs) adopt an asset-light business model, many local SMEs were looking to acquire properties for their own operations. This helped to boost the demand for multiple-user factory and warehouses, especially from companies in the electronics, manufacturing, pharmaceutical distribution, ecommerce, and last mile transportation services. Although there was a gap between buyers and sellers' price expectations, buyers who need new facility with required specifications for their business operations were more motivated to commit to higher asking prices.

Although there was some new project launches in Q4/2021, such as In Space and Citrine Foodland, industrial property prices continued to rise. In particular, the Savills' basket of industrial properties showed that prices for freehold properties increased at a faster pace at 1.5% QoQ to S$721 per sq ft in Q4. From Savills' basket of industrial properties, the price of 60-year leasehold units rose by 1.1% QoQ to S$443 per sq ft. Savills' basket of 30-year leasehold industrial properties also showed a more significant price increase in Q4, rising 0.8% QoQ to S$295 per sq ft. However, 30-year leasehold industrial prices are still 1.6% lower than a year ago.

BUSINESS PARK AND HIGH-SPEC INDUSTRIAL

The vacancy level for business park space in the East Planning Region increased by 2.9 ppts QoQ in Q4/2021 to 21.5% largely due to reduced occupational pressures in ESR Bizpark @ Chai Chee and Changi Business Park. Despite the completion of asset enhancement work for some buildings, it is nevertheless still challenging finding tenants. This was partly because some main target clients of business park space, such as technology and software firms which did well in the digital transformation age, moved to Grade B office spaces to acquire and retain

1 Based on JTC's rental data (excluding business park spaces, only comprises single- and multiple-user factory as well as warehouse spaces).

2 Based on Savills basket of private multiple-user factory properties which ranges from 1,000 sq ft to 3,000 sq ft in size, with an average monthly asking rent of at least S$1.50 per sq ft.

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 15 November 2021.

talents. Nonetheless, vacancy level in the Central Region eased by 1.7% ppt QoQ to record low at 8.5% due to stock removal for redevelopment of 1 Science Park Drive, bringing the islandwide vacancy level down 0.2 of a ppt QoQ to 15.5% in Q4. The limited availability of space and constant demand in Mapletree Business City and one-north regions continued to support rental growth, driving Savills' prime business park[5] monthly rents up by 0.9% QoQ to S$5.86 per sq ft in Q4, 0.8% above that a year ago. Savills' standard business park properties' monthly rents remained in recovery mode, rising by 0.4% QoQ to S$4.01 per sq ft in Q4, the same rental level as a year ago. However, the rental growth could be attributed to the REIT-owned properties which held their rents up while offering other incentives such as Capital Expenditure (CapEx) allowance or rent-free period.

While there was some spill-over of demand from high-spec industrial spaces to Grade B offices, some new high-spec industrial developments such as UBIX saw healthy commitment rate. Coupled with the strong demand in some prime high-spec industrial developments, the average monthly rent for Savills' high-spec industrial basket increased by 0.7% QoQ to S$3.56 per sq ft in Q4, albeit at a moderated pace compared with the 1.7% QoQ rate achieved in Q3.

OUTLOOK

Singapore was set for an economic recovery in the beginning of the year, largely driven by the manufacturing sector. However, elevated oil and energy prices caused by Russia's attack on Ukraine are expected to have an impact on the electricity and transportation costs for industrialists and manufacturers. The Russia-Ukraine conflict will further strain global manufacturing and supply chains as Russia and Ukraine are major exporters of commodities such as wheat, nickel and palladium. This could in turn lead to another wave of disruption and stockpiling. A protracted conflict will affect business confidence and weigh on global economies and impact their recovery from the pandemic.

Despite the global headwinds, industrial and logistics are likely to remain as a favoured real estate sector. In light of operational constraints amid the pandemic, many businesses intensified their efforts to embrace advanced manufacturing, adopt new technology and upskill their workforce. Some initiatives to address the accelerated structural shifts resulting from COVID-19 include the digitalisation of warehousing operations and automation of production lines to cope with fluctuations in demand. Owing to a faster pace of Industry 4.0. transformation, there is a greater shift of demand from traditional factories and warehouses to high-specification industrial facilities, last mile delivery/urban logistics and temperature-controlled facilities. This is fuelled by manufacturers gearing up for a post-pandemic future where supply chains will have to be increasingly nimble.

Notably, due to the pivot to Industry 4.0, landlords of older developments are likely to take the opportunity to embark on asset enhancement initiatives and redevelopment works to remain relevant. Nonetheless, the supply of modern industrial facilities with quality specifications is expected to remain limited in the near term because of construction delays.

If inflation, which was already high, catalysed by supply chain disruptions caused by the pandemic, gets further boosted by the Ukrainian conflict, it may spur companies to purchase their own properties or sign long term leases. Although the prospect of stagflation may set in, the situation we have now could create the conditions for industrial/warehousing rents and prices to rise despite the economy not performing well.

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 3% respectively in 2022.

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%	1.0% to 3.0%

Source Savills Research & Consultancy

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.