

Q3 2023

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Industrial market riding out manufacturing woes

► “Sales and leasing activity in the industrial market has been relatively steady despite the poor manufacturing performance in 2023, setting the stage for when the manufacturing sector turns a corner and begins to pick up.”

NORISHIKIN KHALIK, DIRECTOR, OCCUPIER STRATEGY AND SOLUTIONS

SINGAPORE'S MANUFACTURING SECTOR SHOWS SIGNS OF BOTTOMING OUT

Based on advanced estimates released by the Ministry of Trade and Industry (MTI) in October 2023, the Singapore economy expanded by 0.7% y-o-y and 1.0% q-o-q, despite the narrowing of GDP growth forecast from “0.5% to 2.5%” to “0.5% to 1.5%”. Although the manufacturing sector continued to contract by 5.0% y-o-y in Q3 2023, on a quarterly basis there was a turnaround with a very slight 0.2% growth from the 1.5% q-o-q decline in Q2 2023.

The Economic Development Board (EDB) reported that Singapore’s total manufacturing output decreased by 12.1% y-o-y in August 2023. The transport engineering cluster was the only one tracking positive growth with 16.2% in August, as tourism recovers to

pre-pandemic numbers. However, other manufacturing clusters continued to decrease with the electronics cluster contracting the most, by 20.0%, followed by a 14.4% fall in the precision engineering cluster. The slowdown in the various manufacturing clusters resulted in the continued muted activity in the industrial real estate sector during the quarter. Despite the decreasing total manufacturing output, the Singstat Q3 2023 Business Expectations Survey showed that business sentiment for the manufacturing sector remained positive for the period July to December 2023, suggesting that recovery might be on the horizon.

The overall Singapore Purchasing Manager’s Index (PMI) finally registered an expansion in September, recording 50.1, an increase of 0.2 points from 49.9 in August and the fourth consecutive month of marginal improvement.

3,230 LEASES

Number of Industrial Tenancies
2.1% ▼ Q-O-Q | 2.1% ▼ Y-O-Y

\$922.7 MILLION

Total Industrial Sales
13.9% ▼ Q-O-Q | 15.6% ▼ Y-O-Y

38.9 MILLION SF GFA

Upcoming Supply (Q3 2023 to 2027)

Similarly, the electronics PMI also showed slight improvement even though it continued to be below 50 for 14 straight months since August 2022. Combined with the advanced GDP estimates, the PMI could be an early indication that the manufacturing sector will bottom out and the tide might turn in the next few months.

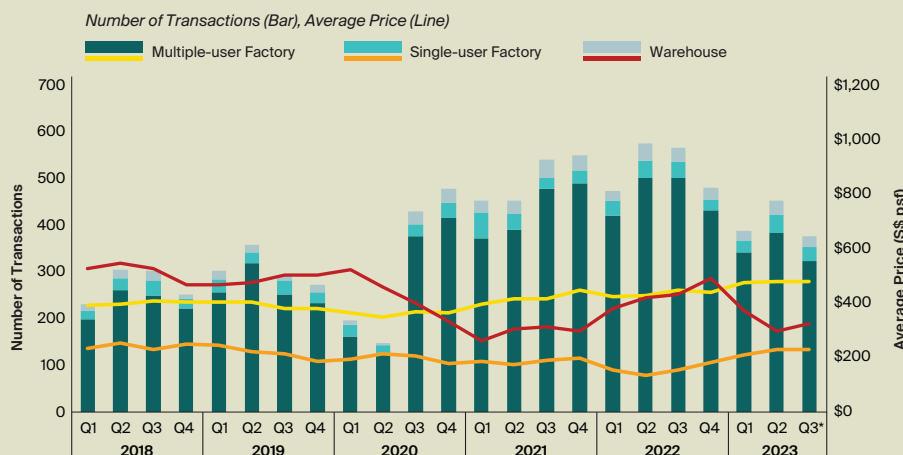
SLOWER SALES AND LEASING ACTIVITY IN THE QUARTER

Industrial sales activity in Q3 2023 slowed down, registering a quarterly decline of 16.4% with 381 sales transactions that amounted to \$922.7 million, a fall of 13.9% q-o-q. Notable sales included the sale of Sime Darby Business Centre for \$68.0 million (\$818 psf) in July, and Reebonz Building to the Tan family of Sunray Woodcraft Construction for \$39.0 million (\$453 psf) in August.

In contrast to industrial sales, leasing activity was more stable, registering a moderate pick up in average rents for all property types. However, islandwide leasing activity for multiple-user factories decreased 2.4% q-o-q to 2,461 tenancies even though the median rent grew 3.7% q-o-q to \$2.17 psf pm, after chalking up a similar increase in Q2 2023 (Exhibit 2). Despite the shrinking electronics sector, occupancy levels remain stable without noticeable signs of end-users giving up significant volumes of space.

Quality warehouse spaces and facilities remained steady in 2023. Warehouse median rents increased for the sixth consecutive quarter touching \$2.00 psf pm in the current quarter, while rental transaction volume was

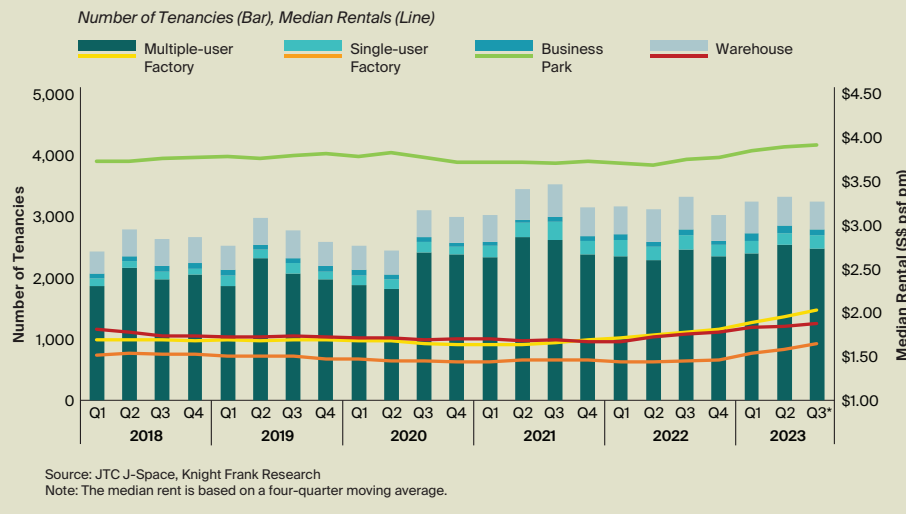
Exhibit 1: Industrial Sales Performance



Source: JTC J-Space, Knight Frank Research
Note: The average unit price is based on a four-quarter moving average of strata transactions.
*Q3 2023 data is based on transactions downloaded as at 16 October 2023.

fairly consistent with 456 units. The promise of soon-to-be completed stock, combined with inventory being cleared from existing storage spaces have eased some of the demand pressures for quality logistics facilities in Q3 2023.

Exhibit 2: Industrial Leasing Volume and Median Rentals



SINGAPORE CONTINUES TO EXHIBIT STRONG POTENTIAL FOR MANUFACTURING CLUSTERS

According to EDB, Singapore received a total of S\$1.6 billion in fixed asset investment (FAI) commitments in Q2 2023, a decrease of 20.4% q-o-q and 75.2% y-o-y as global manufacturers remained tentative on expansion amid the continuing uncertainty. Nonetheless, several clusters such as the chemical, biomedical manufacturing and transport engineering clusters received more forward-looking investment commitments compared to the previous quarter, as Singapore remained attractive to high-end international industrialists.

The first hydrogen-ready co-generation plant in Singapore will be built by Keppel together with a consortium comprising Mitsubishi Power Asia-Pacific and Jurong Engineering. This plant will be located in Jurong Island and is expected to be completed in H1 2026. Global logistics company DSV and logistics real estate specialist Logos will invest \$200 million to develop a 720,000 sf built-to-suit warehouse facility that is expected to be completed by mid-2025. GlobalFoundries opened its 247,570 sf expansion of their fabrication plant in Woodlands in September at a cost of S\$5.5 billion. Additionally, Hong Leong Asia opened a 409,029 sf construction and prefabrication facility at Punggol in July, the largest of its kind to mitigate the stress on supply chains that were the cause of delays in the aftermath of the pandemic.

Despite the new entrants, Disney's Lucasfilm announced its departure from

Singapore in August as it shut its operations here due to changes in the industry and business conditions.

MARKET OUTLOOK

The industrial real estate sector has been in a holding pattern throughout 2023 and is likely to end the year in similar circumstances. Even though manufacturing output and contribution to GDP contracted during the year, industrial real estate indicators of occupancy levels, prices and rents generally remained stable for most industrial property types, from time to time even recording marginal gains. While not out of the woods yet, there are signs that the outlook by the end of 2023 will be more hopeful for manufacturing than at the start of the year, with early signals that the worst might have passed.

Although Singapore's key exports shrank by 13.2% y-o-y in September 2023, this has abated from the 22.5% slide in August. Added to the combination of the turnaround in sentiment from official business surveys, the PMI turning positive, and a slight quarterly gain in manufacturing GDP growth based on Q3 2023 advance estimates, the sector might start to recover in early 2024 with the industrial real estate market strengthening in tandem.

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For further information, please contact:



Norishikin Khalik
Director
Occupier Strategy and Solutions
+65 6228 7347
norishikin@sg.knightfrank.com



Leonard Tay
Head
Research
+65 6228 6854
leonard.tay@sg.knightfrank.com



Alvin Teng
Director
Occupier Strategy and Solutions (Industrial)
+65 6228 6893
alvin.teng@sg.knightfrank.com



Sim Li Wei
Analyst
Research
+65 6228 6856
liwee.sim@sg.knightfrank.com

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