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DISMAL SHOWING OF MANUFACTURING SECTOR SAW FALLS IN INDUSTRIAL PRICES AND RENTS IN 2Q 2015

"Leasing market continues to be price sensitive with rental expectation gap between landlords and tenants to narrow in the coming quarters."

LIM KIEN KIM

Executive Director & Head, Industrial

Transaction volume of strata-titled industrial units remained low in 1H 2015, despite modest increase in transactions from the resale segment in 2Q 2015. Slow manufacturing performance led to declines in average prices for factory and warehouse units, while asking rents at key industrial clusters also saw a quarterly decline of 2.3% in 2Q 2015.

Further contraction of manufacturing sector for 2Q 2015

Singapore's manufacturing sector experienced a 4% year-on-year (y-o-y) contraction, according to Ministry of Trade and Industry (MTI)'s advance estimates for 2Q 2015. The decline was attributed to fall in outputs from biomedical manufacturing and transport engineering clusters.

According to the Economic Development Board (EDB)'s Monthly Manufacturing Performance in June 2015, Singapore's overall manufacturing output declined by 4.4% y-o-y. On a seasonally adjusted month-on-month (m-o-m) basis, manufacturing output fell by 3.3% in the same month.

Chemicals cluster remains as the only outperformer, experiencing a y-o-y increase of 4.2% in June 2015, while the rest of the clusters continued to record y-o-y contractions. The cluster was boosted by outputs from specialties and other chemicals segments, which grew 11.3% and 9% respectively. However, plant maintenance shutdowns led to a fall of 5.2% in the petroleum segment.

Strong showing with higher outputs from the medical technology segment was contributed by strong demand for medical devices and supplies, which minimized the impact of a weak pharmaceutical segment in the Biomedical cluster. The cluster experienced a marginal 0.6% y-o-y reduction in June 2015.

EXHIBIT 1

Summary of Monthly Manufacturing Performance in June 2015

Cluster	% y-o-y change
Biomedical manufacturing	↓ 0.6%
Chemicals	↑ 4.2%
Electronics	↓ 2.1%
General manufacturing industrie	↓ 3.3%
Precision engineering	↓ 5.0%
Transport engineering	↓17.5%

Source: EDB, Knight Frank Research

Despite output growth for all segments except semi-conductor, electronics cluster has fallen 2.1% y-o-y in the same month.

Transport engineering cluster continued to suffer weak performance, with a marked 17.5% y-o-y decrease in outputs for June 2015. Both marine & offshore engineering and aerospace segments continued to decline at 21.7% and 15.7% respectively. Marine & offshore segment saw slower activities in rig building, ship building and conversion while aerospace experienced weak demand for engine repair works (Exhibit 1).

Singapore Purchasing Managers' Index (PMI) saw its first expansion in the manufacturing sector in May 2015 at 50.2, after five consecutive months of contractions. The sector continued to expand with the PMI moving higher marginally to reach 50.4 in June 2015.

Further growth from the preceding month in production output, new orders and inventory continued in June 2015. In addition, expansion continued in overall stockholdings of finished goods, imports and input prices since May 2015. Despite an improved reading, new export orders continued to decline in June 2015. Employment contracted further for seven consecutive months.

Activities in resale segment led to overall increase in transaction volumes

Transaction volume of upper-floor factory units fell significantly in 1H 2015

A total of 196 caveats were lodged for upper-floor strata-titled factory units in 2Q 2015, representing a 7.7% q-o-q increase (Exhibit 2). However, on a y-o-y basis, it represented a significant 62% decline in number of caveats lodged.

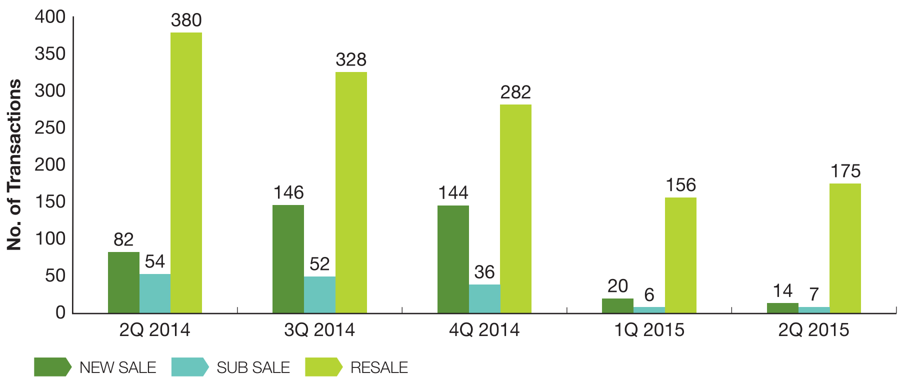
Transaction volume for new strata-titled factory units remained low with only 14 caveats lodged in 2Q 2015, a 30% decline from the preceding quarter. A total of 11 caveats were lodged for units from Eco-Tech@Sunview.

Resale transactions of strata-titled factory units saw a 12.2% q-o-q increase with 175 caveats lodged in 2Q 2015, mainly led by buyers scouring the secondary market for suitable units. Central region reversed its downward trend from the preceding quarter and saw the highest increment among the regions with 67 caveats lodged, or 48.9% q-o-q increase in 2Q 2015. East region experienced the largest fall by 42.9% q-o-q with only 8 caveats lodged during the same period.

In 1H 2015, a total of 278 caveats were lodged for upper-floor factory units, which was a significant 64.1% decline from 990 caveats lodged in 2H 2014. This dismal showing in transaction volume could be attributed to the lack of new strata-titled industrial developments that were launched in 1H 2015 with only Proxima@Gambas launched in June 2015. Implementation of the Total Debt Servicing Ratio (TDSR) framework has also deterred potential investors to consider industrial units as an investment property. In addition, the relatively weak performance of the manufacturing sector, together with high labour costs could have led some industrialists to delay acquisitions of industrial properties for their business operations as they undertake a conservative operations approach.

EXHIBIT 2

Transaction Volume for Strata-titled Factory Units*, as at 2Q 2015

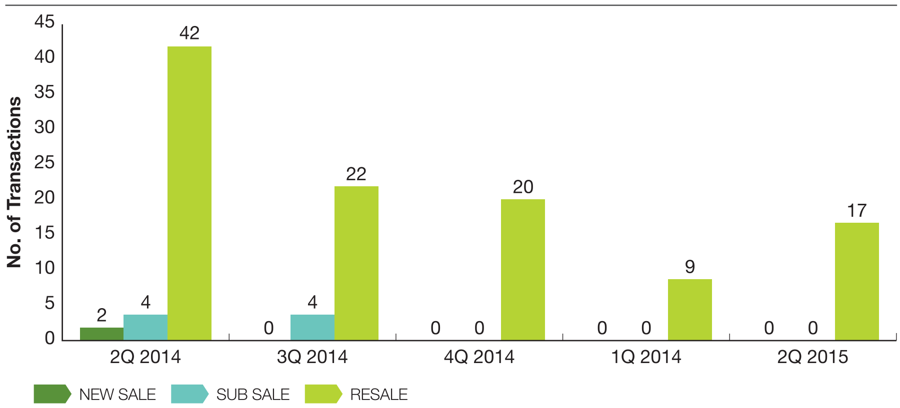


Source: REALIS (as at 6 July 2015), Knight Frank Research

*Transactions are based on units on upper floors only.
**Some transactions may comprise more than 1 strata-titled unit.

EXHIBIT 3

Number of Caveats Lodged for Strata-titled Warehouse Units, as at 2Q 2015



Source: REALIS (as at 6 July 2015), Knight Frank Research

*Transactions are based on units on upper floors only.
**Some transactions may comprise more than 1 strata-titled unit.

Warehouse transaction volume picked up in 2Q 2015

A total of 17 caveats were lodged for upper-floor warehouse units in 2Q 2015, representing a prominent 88.9% q-o-q increase from 1Q 2015. Units sold were mostly concentrated in Central and East regions. In 2Q 2015, 7 upper-floor warehouse caveats were lodged for Gordon Warehouse Building, a Business 2 (B2) development located at Kaki Bukit. Smallish and reasonably-priced warehouse units are typically more favoured by the industrialists due to its limited supply in the locality (Exhibit 3).

For 1H 2015, a total of 26 caveats were lodged, representing a 43.5% y-o-y decrease from 2H 2014, which recorded 46 warehouse transactions during the period.

Average price for island-wide strata-titled factories declined marginally in 2Q 2015

Island-wide average price for strata-titled factory spaces located on the upper floors was at $430 per sq ft (psf) in 2Q 2015, representing a marginal 0.9% q-o-q decline. However, the average price of strata-titled factories saw a 4.3% y-o-y increase.

Average price for new sale factory units experienced a 8.3% q-o-q decrease from $369 psf in 1Q 2015 to $338 psf in 2Q 2015. This price drop was largely attributed to majority of the transactions from Eco-Tech@Sunview, a 30-year leasehold property, which commanded a lower psf rate for its factory units. On a y-o-y basis, average price for new sale factory units slipped marginally by 1.2%.

The sub-sale segment saw an average price increment by a significant 32.8% q-o-q increase to reach $667 psf in 2Q 2015. Despite the low transaction volume for this segment, the increment was largely contributed by higher transaction prices of two small units with strata area of less than 1,200 sq ft each in CT Hub 2. This led to an average price increase of $627 psf in 1Q 2015 to $827 psf in 2Q 2015.

Island-wide average price for resale strata-titled factory units slipped marginally by 2% q-o-q to $430 psf in 2Q 2015. Freehold units enjoyed the highest increment with an average transacted price of $791 psf in the same quarter, reflecting a 6.8% q-o-q increase. However, the average price for factory units on 30-year leases or less continued its decline from the preceding quarter, albeit at a slower rate with a q-o-q decline of 7.6% to $247 psf in 2Q 2015. On a y-o-y basis, average price for resale factory units saw a 5.1% increment.

Notable decline in average price for resale segment in East region

Central region was the only region which enjoyed a 1.7% q-o-q increase in the overall average price for upper-floor factory units in 2Q 2015. Average price for upper-floor factory units in the Northeast region has the largest q-o-q decline by 13.5% to $477 psf. An absence of freehold factory unit transactions during the quarter led to the notable decline.

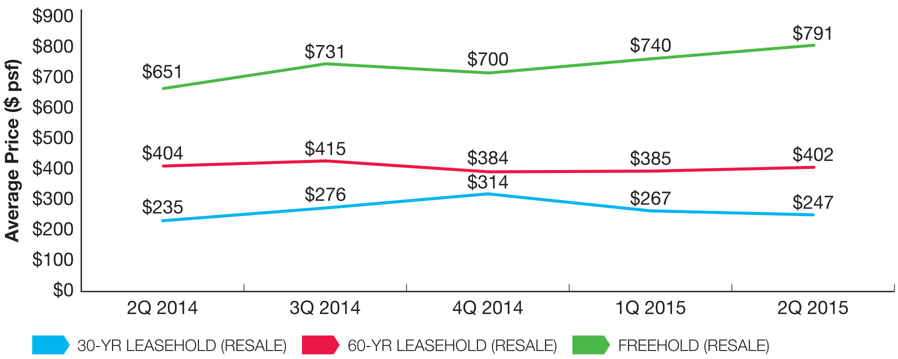
On the resale front, East region suffered the largest q-o-q decline by 20.7% in 2Q 2015, largely attributed to a 31.1% q-o-q decline for transactions of units with a 60-year leasehold tenure or less.

Decline in average price of warehouse units led by transactions of 60-year leasehold units

After a recovery of average price in the preceding quarter, island-wide average price for upper-floor strata-titled warehouse transactions fell by a notable 24.3% q-o-q to $399 per sq ft in 2Q 2015.

EXHIBIT 4

Average Prices of Strata-titled Factory Units* (Resale)

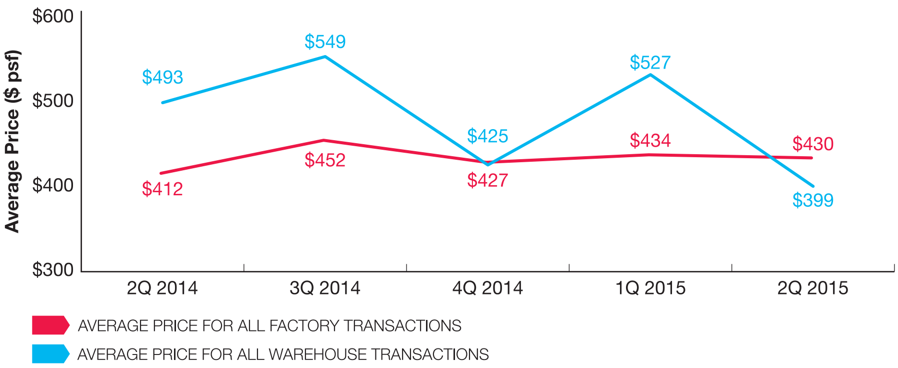


Source: REALIS (as at 6 July 2015), Knight Frank Research

*Transactions are based on units on upper floors only.

EXHIBIT 5

Average Prices* of Strata-titled Factory and Warehouse Units



Source: REALIS (as at 6 July 2015), Knight Frank Research

*Transactions are based on units on upper floors only.

The decline was largely attributed to a higher concentration of transactions for 60-year leasehold units in 2Q 2015. In the quarter, 11 out of 17 caveats, or 64.7% of total caveats lodged, were of 60-year leasehold tenure, compared to 1Q 2015 with 4 out of 9 caveats lodged (or 44.4% of total caveats). On a y-o-y basis, the island-wide average price of warehouse units fell by 15.4% (Exhibit 5).

Island-wide average asking rents dipped marginally in 2Q 2015

Overall asking rents averaged $2.53 psf in 2Q 2015, representing a q-o-q and y-o-y declines of 2.3% and 3.1% respectively (Exhibit 6).

Clementi – Toh Tuck – Bukit Batok cluster experienced the highest decline with a 7.2% q-o-q drop to an average asking rental rate of $2.05 psf in 2Q 2015, led by lower asking rents for less preferred units that are either partially fitted or in bare condition.

Increase in available supply within the Bukit Merah locality has exerted downward pressure on asking rents for the micro cluster of Bukit Merah – Alexandra – Jalan Kilang – Pasir Panjang, resulting in a 4.4% q-o-q decline to $3.48 psf in 2Q 2015.

Despite a marginal q-o-q decline of 0.2% in asking rents for business park spaces, healthy take-up for business park spaces, especially in one-north precinct, helped to support the average island-wide asking rent for business parks in 2Q 2015.

Market Outlook

Transaction volume to remain low for 2015

Cost-conscious industrialists adopting a "wait-and-see" attitude will continue to monitor the market closely, despite the widened availability of options in the market. Driven by various reasons ranging from acquisition of spaces for their own use, expansion of businesses or relocations, they will be "window-shopping" for suitable spaces. The industrial property market will continue to be a buyer's market with the ongoing weak industrial market conditions and no signs of improvement in the near term. It is probable for owners to receive unrealistically low offers, leading to few actualization of such deals.

Investors with limited financial capacity are likely to resort to selling their units in secondary market to minimise potential losses. However, with the unrealistic offers on the table, these owners will turn to auctions as a transparent mode of sale to get the best offers. The auctions market will continue to see a rise in industrial properties being put up for sale in the coming months by owners and lenders.

Given the uncertain global economic outlook and relatively weak manufacturing performance in Singapore, total transaction volume for both strata-titled factories and warehouses is expected to remain low for the whole of 2015 and less likely to regain momentum to surpass what was concluded in 2014.

Industrial leasing market continues to favour tenants in 2H 2015

Overall leasing market will continue to remain competitive with new industrial spaces of an estimated 17.1 million sq ft Gross Floor Area (GFA) slated for completion by end of 2H 2015. Landlords will have to focus on looking into filling up their spaces quickly, given the muted outlook of the economy and the expected upcoming industrial space supply of about 30.2 million sq ft GFA in 2016.

The rental expectation gap between landlords and tenants is likely to narrow in the coming quarters, especially so for landlords who are investors of strata-titled industrial developments with limited holding power. These investors will see a heightened strain to accept lower rents to alleviate a portion of their monthly mortgage repayments, instead of having their vacant units foreclosed by the lenders due to difficulties in loan repayments. Hence, with the numerous factors looming in the background, rents are likely to face further downward reduction pressure of between 3% to 5% by the end of 2015.

Growing demand for chemicals warehouses

Continual efforts by the authorities to establish Singapore as one of the world's leading energy and chemicals hubs, has been contributed by the attraction of renowned Multi-National Corporations (MNCs) to set up their chemicals plants in Singapore. For instance, Solvay, a Belgian specialty chemicals company has recently opened an alkoxylation plant in Jurong Island and Total, a French oil and gas company has also opened its new lubricant oil-blending plant in Singapore.

Given the stringent requirements and guidelines to be met, special facilities are required to store these dangerous goods, chemicals and flammables which are used as raw materials for the plants or storage for

EXHIBIT 6

Average Monthly Gross Rentals (Asking) for Conventional Industrial Space by Cluster

Industrial Cluster	Monthly Gross Rentals (Upper Floor, S$ per sq ft) 1Q 2015	2Q 2015	% Change q-o-q
Kaki Bukit - Ubi - Paya Lebar - Eunos	$2.69	$2.65	-1.5%
Macpherson - Tai Seng – Defu	$2.09	$2.04	-2.4%
Kallang - Geylang - Bendemeer	$3.67	$3.59	-2.2%
Bukit Merah - Alexandra - Jalan Kilang - Pasir Panjang	$3.64	$3.48	-4.4%
Serangoon - Ang Mo Kio - Lorong Chuan - Toa Payoh - Pemimpin	$2.27	$2.32	2.2%
Clementi - Toh Tuck - Bukit Batok	$2.21	$2.05	-7.2%
Woodlands - Sembawang - Admiralty- Yishun	$1.55	$1.57	1.3%
Average	**$2.59**	**$2.53**	**-2.3%**
Business Park Space (Island-wide)	$4.56	$4.55	-0.2%

Source: Knight Frank Research

*Range of rentals are estimated based on the average of minimum and maximum asking rentals derived from surveys.

*Only rents of units on upper floors are included.

*Starting from 3Q 2014, a new property basket of industrial clusters replaces the old basket that was reported in previous quarterly reports. The adjustment is made due to the expansion of various industrial clusters, changes in building age of properties and the take-up rates for the past year.

finished products before exporting to other countries. Growing demand for chemicals warehouses is expected in the near future with the establishment and expansion of the chemicals-related industries in Singapore.

Existing chemicals warehouses are well-received with high take-ups in new warehouses such as Cogent1.Logistics Hub. Third-party logistics players will continue to source for suitable warehouses for conversion into chemicals warehouses to meet the demand for these spaces.

Displaced tenants on an active look out for suitable spaces

Some industrial properties with recently renewed land leases will have plans for redevelopment or extensive additions and alterations to their existing premises, such that the building specifications are upgraded to meet the future demand of their business activities. Sublet tenants currently occupying these premises will have to vacate in the near future will commence their search for alternative industrial spaces to continue their operations.

Existing sublet tenants occupying more than 30% of industrial spaces within single-user buildings will have to either reduce their space requirement to comply with the JTC's revised subletting guidelines of 70:30 or contemplate relocation alternatives by 31 December 2017. These sublet tenants are likely to commence their search for suitable spaces to ensure that their business activities will continue with minimal interruptions, due to the compliance of the guidelines.

Leasing activities is expected to increase at a gradual pace, supported by the demand from these tenants who are actively looking for suitable alternative spaces. The current leasing market that favours tenants will present a good opportunity for these companies to negotiate for favourable rental package, potentially translating to cost savings for their businesses.

FOR INDUSTRIAL SALES AND LEASING INFORMATION, PLEASE CONTACT:

Lim Kien Kim
Executive Director & Head
Industrial
6228 6894
lim.kienkim@sg.knightfrank.com

FOR FURTHER INFORMATION ON THE REPORT, PLEASE CONTACT:

Alice Tan
Director & Head
Consultancy and Research
6228 6833
alice.tan@sg.knightfrank.com

Pearl Lok
Assistant Manager
Consultancy and Research
6228 6857
pearl.lok@sg.knightfrank.com

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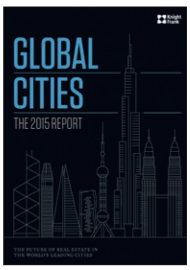

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