

# MORE HEADWINDS AHEAD FOR THE INDUSTRIAL MARKET WITH MORE BUSINESS CONSOLIDATION AND RESTRUCTURING



“Genuine sellers have since lowered their price expectations after numerous months of marketing and are more willing to consider any reasonable offer.”

**CATHERINE NG**  
Associate Director, Industrial

Transaction volume of strata-titled industrial units registered a decline in 3Q 2015, despite a slight recovery in the preceding quarter. Prices of industrial units and asking rents of key industrial clusters continued to slip in the quarter. With current muted economic conditions and growing pessimism in business expectations, industrialists will be more conservative in their space requirements and cost management to remain sustainable.

## Extended contraction in manufacturing sector

Singapore's manufacturing sector experienced a 6% year-on-year (y-o-y) contraction in 3Q 2015, extending its y-o-y decline from the preceding quarter fall of 4.9%, according to Ministry of Trade and Industry (MTI)'s advance estimates. The decline was attributed to lower outputs from biomedical manufacturing, transport engineering and electronics clusters.

According to the Economic Development Board (EDB)'s Monthly Manufacturing Performance in September 2015, Singapore's overall manufacturing output declined by 4.8% y-o-y. On a seasonally adjusted month-on-month (m-o-m) basis, manufacturing output increased marginally by 0.5% in the same month.

The biomedical manufacturing cluster recovered to post a 26.3% y-o-y growth in

### EXHIBIT 1

#### Summary of Monthly Manufacturing Performance, July to September 2015

Cluster	July 2015 (% y-o-y change)	August 2015 (% y-o-y change)	Sept 2015 (% y-o-y change)
Biomedical manufacturing	↓ -12.7%	↓ -1.7%	↑ 26.3%
Chemicals	↑ 4.2%	↑ 2.6%	↑ 4.4%
Electronics	↓ -8.5%	↓ -10.7%	↓ -8.6%
General manufacturing industries	↓ -2.2%	↓ -2.0%	↓ -4.7%
Precision engineering	↓ -5.8%	↓ -8.2%	↓ -8.7%
Transport engineering	↓ -5.8%	↓ -16.0%	↓ -24.0%

Source: EDB, Knight Frank Research

September 2015, after two consecutive months of y-o-y declines. Medical technology and pharmaceuticals segments saw output growth, with pharmaceuticals registering a 29.2% y-o-y increase, due to a low base in September 2014.

The chemicals cluster improved from a 2.6% y-o-y growth in August 2015 to a 4.4% y-o-y growth in output in September 2015. The specialties segment led growth with expanded production capacities, while petroleum and petrochemicals segments also saw output expansions during the same period.

Output decline continued for transport engineering cluster with an extended negative growth of 24.0% y-o-y in September 2015, mainly contributed by marine & offshore engineering segment with lower activities in rig and ship building.

Singapore Purchasing Managers' Index (PMI) suffered contraction for 3 consecutive months, with the quarter ended at 48.6 in September 2015. Contractions were recorded in new orders, new exports, production output, input prices and employment. Inventory, stockholdings of finished goods and imports expanded in the month.

## Despite signs of improvement in the preceding quarter, overall transaction volume declined in 3Q 2015

### Transaction volume of upper-floor factory units contracted in 3Q 2015

A total of 143 caveats were lodged for upper-floor strata-titled factory units in 3Q 2015, a 39.1% q-o-q decline and a substantial 72.8% y-o-y fall (Exhibit 2).

New sale unit transactions for upper-floor strata-titled factory units saw a fourth consecutive quarter dip at 10.5% q-o-q with 17 caveats lodged in 3Q 2015. Of which, a total of 13 caveats were lodged for units from Eco-Tech @ Sunview located in the West region.

Resale transactions of upper-floor strata-titled factory units slipped by 41.3% q-o-q with 121 caveats recorded in 3Q 2015. The Central region recorded the largest drop of 57.5% q-o-q with only 31 caveats lodged in the quarter. This reducing enthusiasm in the resale transaction market could be associated with the slowing manufacturing sector which impeded business expansion and the demand for new factory units.

Similarly, sub-sale transaction of upper-floor strata-titled factory units took on a downward spiral of 50.0% q-o-q with only 5 caveats lodged in 3Q 2015. This low transaction volume continued to

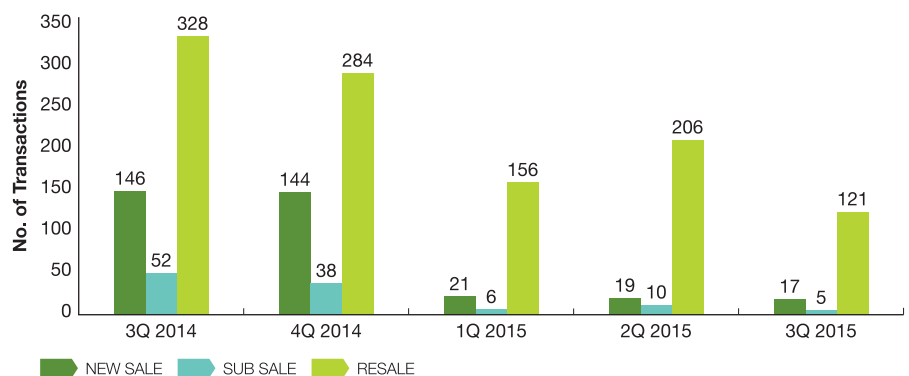
demonstrate the effectiveness of the cooling measures such as the Total Debt Servicing Ratio (TDSR) and the Seller's Stamp Duty (SSD), in deterring speculators. On the back of the surge in upcoming supply and underperformance of the manufacturing sector, market sentiments has been dampened.

### Warehouse transaction volume registered a negative twist in 3Q 2015

A total of 10 caveats were lodged for the strata-titled upper-floor warehouse units in 3Q 2015. This translates to a 41.2% q-o-q decline and a notable 61.5% y-o-y

EXHIBIT 2

#### Number of Caveats Lodged for Strata-titled Factory Units\*, as at 3Q 2015



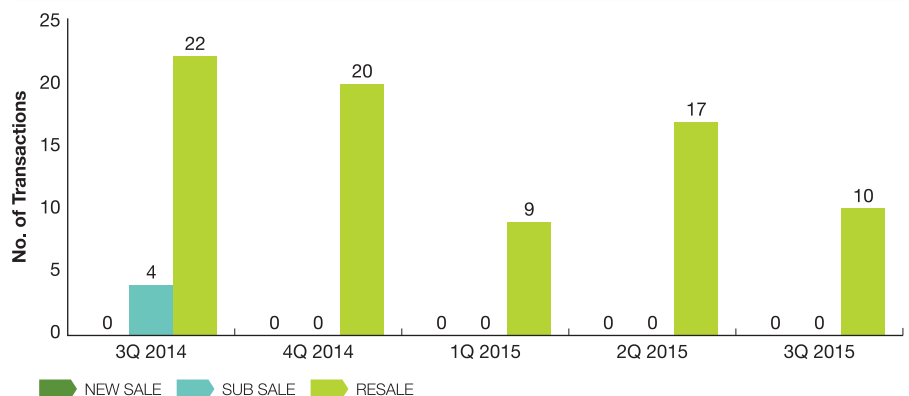
Source: REALIS (as at 19 October 2015), Knight Frank Research

\*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 3Q 2015



Source: REALIS (as at 19 October 2015), Knight Frank Research

\*Transactions are based on units on upper floors only.

\*\*Some transactions may comprise more than 1 strata-titled unit.

plunge from the preceding quarter (Exhibit 3). All of the 10 caveats lodged in 3Q 2015 were resale transactions that were mainly clustered in the Central and West regions.

### Average price for factory units declined for the second consecutive quarter

Island-wide average price for upper-floor strata-titled factory units stood at \$394 per sq ft (psf) in 3Q 2015, posting a dip of 7.8% q-o-q and 12.8% y-o-y.

Average price for new sale upper-floor strata-titled factory units fell by 13.6% q-o-q to \$315 psf in 3Q 2015. This downward pressure in price was primarily due to the lower selling prices commanded by new factory units with tenure of 30-year lease or less. Transactions from Eco-Tech @ Sunview factory formed the bulk of new sale transactions in 3Q 2015.

Average price for sub-sale factory units increased by 29.3% q-o-q to \$839 psf in 3Q 2015, despite its all-time-low transaction volume of 5 caveats since 4Q 2010. This is largely attributed to the higher transaction prices of the four small units in CT Hub 2 with strata area of less than 1,000 sq ft each.

Island-wide average price for resale factory units faced a 7.8% q-o-q contraction in 3Q 2015 to \$398 psf; Whilst resale factory units on 30-year lease or less saw recovery and registered the highest positive growth of 33.8% q-o-q to \$325 psf in 3Q 2015 (Exhibit 5).

### Softened fall in island-wide average price of warehouse units

Island-wide average price for upper-floor strata-titled warehouse units saw decline by 7.6% q-o-q to \$369 psf in 3Q 2015. The softened fall in the average price for warehouse units was due to the price recovery of warehouse units with 60-year or less leasehold tenure which formed the bulk of the total caveats lodged (8 out of the total 10 caveats recorded) in 3Q 2015. However, on a y-o-y basis, the island-wide average price fell by a notable 32.9% (Exhibit 4).

### Island-wide average asking rents slipped marginally in 3Q 2015

Overall, the asking rents averaged \$2.41 psf in 3Q 2015, representing a marginal 0.5% q-o-q decline (Exhibit 6).

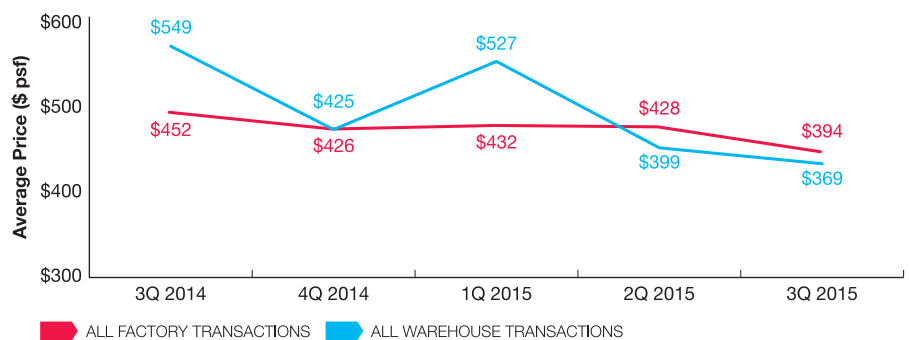
Average asking rents in Clementi – Toh Tuck – Bukit Batok cluster eased its fall with a 4.4% q-o-q decline to \$1.96 psf in 3Q 2015, after suffering a 7.2% q-o-q drop in the preceding quarter. Limited offerings of fully fitted units and less units up for renewal eased the fall in asking rents within the cluster.

A new industrial cluster, Pioneer – Tuas, was introduced in 3Q 2015 with an average asking rent of \$1.85 psf. Landlords with fitted units looking towards higher asking rents for renewal of existing tenancies could have led to 5.1% q-o-q increase during the quarter.

Average asking rents in business parks saw a further 1.3% q-o-q decline in 3Q 2015, from 0.2% q-o-q drop in the preceding quarter. Most spaces in One-North have been leased successfully, while the upcoming Mapletree Business City II (MBCII) saw pre-committed leases from Google and Covidien taking up a total of 256,000 sq ft of business park space.

EXHIBIT 4

#### Average Prices\* of Strata-titled Factory and Warehouse Units

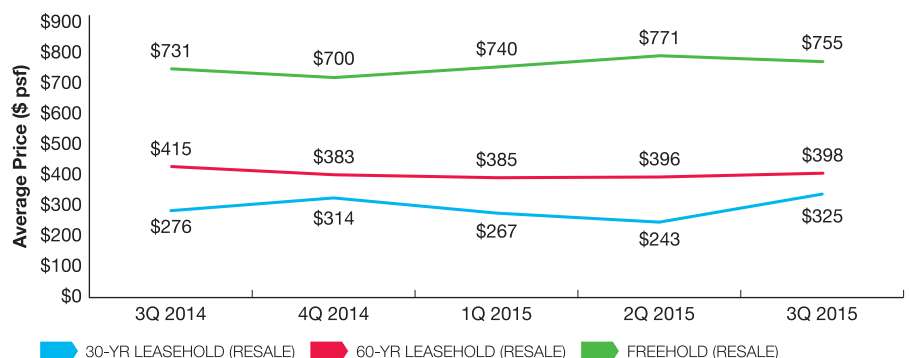


Source: REALIS (as at 19 October 2015), Knight Frank Research

\*Transactions are based on units on upper floors only.

EXHIBIT 5

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



Source: REALIS (as at 19 October 2015), Knight Frank Research

\*Transactions are based on units on upper floors only.

## Market Outlook

### Muted transaction volume to remain for 4Q 2015

Softer global economic conditions and increasing pessimistic outlook of manufacturers' business expectations in the next six months (ending March 2016) are likely to contribute to the low transaction situation of industrial units till end of 2015. Buyers will continue to be mindful of their intended acquisitions and instead likely to consider short-term lease as a viable alternative if there is no suitable spaces available.

Some industrialists who prefer to own industrial spaces are likely to commit after months of "window-shopping" for suitable and reasonably-priced spaces. Genuine sellers have since lowered their price expectations after numerous months of marketing and are more willing to consider any reasonable offers. However, such successful transactions may be limited. Together with the general slowdown of buying activities, a muted transaction volume is expected for 4Q 2015.

### Business consolidation and restructuring

In view of expected headwinds, industrialists are adopting a more conservative cost management approach and less willing to expand their operations. More companies are evaluating the possibility of business consolidation or restructuring their operations to remain financially sustainable. With the tight labour supply in Singapore likely to continue in the near term, more companies are moving labour-intensive components of their manufacturing operations to cheaper locations in other countries such as Malaysia or Thailand; or outsourcing to external providers, while maintaining the higher value-added services in Singapore. To better manage costs, these industrialists are likely to consolidate their space take-up or relocate to smaller premises.

### Continued strain on rental market

Facing strong market competition, landlords continued to be aggressive in attracting new tenants while retaining existing tenants. Achieved renewal rents deviated from the usual trend of higher achievable rents than new leases, and were concluded on par or slightly higher than new leases. Landlords that own dated building specifications are likely to accept a lower than market rents to secure tenants or take the opportunity to conduct asset enhancements to improve its building specifications.

Given an estimated 8.4 million sq ft of industrial space that will be completed by 4Q 2015, downward pressure on rents will continue with overall industrial rents likely to reduce by between 3% and 5% y-o-y in 4Q 2015.

### Development of 3D printing cluster

Increasing worldwide demand for 3D printing technology and together with the identification of 3D printing as a key area

of growth in Singapore, the National Additive Manufacturing Innovation Cluster was set up recently to facilitate Small Medium Enterprises (SME) to develop their capabilities in 3D printing. Nanyang Technological University (NTU) will be leading the cluster with two other universities- National University of Singapore (NUS) and Singapore University of Technology and Design (SUTD) to develop the capabilities.

With the potential partnership with these universities, SMEs are able to leverage on their available expertise and resources to make use of 3D printing technologies in a more cost effective manner to facilitate and advance their manufacturing processes.

Meanwhile, Ultra Clean Asia Pacific (UCT) has recently set up a commercial 3D printing facility in Singapore, touted as the largest commercial 3D printing facility in Southeast Asia. The facility aims to offer services to individuals and manufacturers predominantly in aerospace, dental and medical segments without capital investment in the equipment.

#### EXHIBIT 6

#### Monthly Gross Rentals (Asking) for Conventional Industrial Space by Clusters

Industrial Cluster	Monthly Gross Rentals (Upper Floor, S\$ per sq ft)		% Change q-o-q
	2Q 2015	3Q 2015	
Kaki Bukit - Ubi - Paya Lebar - Eunos	\$2.54	\$2.62	3.1%
Macpherson - Tai Seng - Defu	\$2.04	\$2.04	0.0%
Kallang - Geylang - Bendemeer	\$3.59	\$3.51	-2.2%
Bukit Merah - Alexandra - Jalan Kilang - Pasir Panjang	\$3.48	\$3.40	-2.3%
Serangoon - Ang Mo Kio - Lorong Chuan - Toa Payoh - Pemimpin	\$2.32	\$2.29	-1.3%
Clementi - Toh Tuck - Bukit Batok	\$2.05	\$1.96	-4.4%
Pioneer - Tuas	\$1.76	\$1.85	5.1%
Woodlands - Sembawang - Admiralty- Yishun	\$1.57	\$1.58	0.6%
<b>Average</b>	<b>\$2.42</b>	<b>\$2.41</b>	<b>-0.5%</b>
<b>Business Park Space (Island-wide)</b>	<b>\$4.55</b>	<b>\$4.49</b>	<b>-1.3%</b>

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 2015, a new industrial cluster Pioneer - Tuas has been inserted as one of the key clusters.

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