

MUTED DEMAND FOR INDUSTRIAL SPACE EXPECTED IN ANTICIPATION OF MODEST SINGAPORE ECONOMY GROWTH FOR 2017

While the manufacturing sector saw some signs of reprieve in Q4 2016, strong headwinds in most industries continued to place pressure on industrial space rentals and prices for Q4 2016. In anticipation of modest economic growth in 2017, average rents and prices for leasehold industrial properties could fall by between -5.0% to -8.0% y-o-y by Q4 2017.

Overall manufacturing economy saw some signs of reprieve in Q4 2016

- **The PMI¹ index showed improved sentiments within the manufacturing sector.** After five straight quarters of contraction, the Singapore Purchasing Managers' Index improved to between 50.0 and 50.6 in the last three months of 2016 due to faster rate of expansion in factory output, inventory holding, as well as new orders and new exports.
- **Factory output grew 11.9% year-on-year (y-o-y) in November 2016².** On a three-month moving average basis, manufacturing output increased 6.9% in November 2016 compared to a year ago. The increase was mainly supported by the increased output in the biomedical manufacturing cluster (+34.8% y-o-y), the electronics cluster (+24.2% y-o-y) and the chemical cluster (+3.5% y-o-y). Conversely, demand in the general manufacturing industries cluster (-0.9% y-o-y) and the transport engineering cluster contracted (-14.8% y-o-y) in November 2016.
- **The Quarterly Employment in the manufacturing sector contracted by 3,600 headcounts in Q3 2016,** lower than the contraction of 4,300 headcounts in Q3 2015. Similarly, the quarterly employment in the construction sector declined by 5,300 headcounts in Q3 2016, compared to the expansion of 3,700 headcounts in Q3 2015. Meanwhile the quarterly employment in the service sector increased by 6,300 headcounts in Q3 2016. The number of layoffs for the first nine months of 2016 stood at 13,730 workers, the highest since the same period in 2009 (21,210 workers). Services sector accounted for the largest proportion of redundancy 59% during the first nine months of 2016. Overall, unemployment rate (seasonally adjusted) held steady at 2.1% for June 2016 and September 2016.



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"As JTC rolls out more sites with short term leases, industrial assets with 60-year and above tenures, will continue to be highly sought after by industrialists as long-term investments."

Six confirmed sites and five reserved sites covering a total site area of 11.25 ha, launched on the Industrial Government Land Sales (IGLS) programme for H1 2017

- Four of the six confirmed sites under the H1 2017 IGLS programme are located in the West region. The remaining two sites are in the East and North regions. All sites are zoned as Business 2 usage and have land tenures of 20 years.

Bright spots in 2017

- **More mergers and acquisitions (M&A) activities expected among e-commerce players and warehousing and logistics industrialists to provide seamless omni-channelling services.** After Alibaba's move to increase its stake in SingPost and purchase of Singapore-based e-commerce company Lazada, the e-commerce giant recently acquired Redmart, the online grocer, through Lazada. The stream of acquisitions allows Alibaba to anchor its foothold in Singapore. Following Alibaba's footsteps, one can expect to see more M&A activities among e-commerce players and warehousing and logistics industrialists, so as to provide the same seamless omni-channeling experience for consumers.

- **Singapore is on the way to become the hub to Asia pharmaceutical industry.** Asia is estimated to be the second largest market for biosimilars in 2015, after Europe. Equipped with a business-friendly environment and with easy access transportation routes, Singapore has successfully attracted new and established pharmaceutical companies to open their manufacturing plants locally in the last few years. For instance, Amgen, an America-based biotechnology company, opened a S\$200 million biologics manufacturing plant here in Singapore during 2014. In 2017, the Swiss healthcare company, Novartis, will open a US\$500 million manufacturing plant to produce biologics and biosimilars.
- **Growing pharmaceutical footprint opened up cold chain market for third-party logistics players (3PLs) in Singapore.** With rigorous temperature requirements and energy dependency during the transportation of drugs and drugs accessories, the pharmaceutical industry has opened up a market for cold chain logistics in Singapore. Established 3PLs which are seeking to be niche channel partners to pharmaceutical companies should look to offer sophisticated mechanisms from cold chain development and customs facilitations to management and timely delivery of research and clinical trial samples.

Overall island-wide rents held firm in Q4 2016

- **Overall island-wide rents slipped marginally by 0.4% q-o-q** to \$2.04 per sq ft per month (psf pm) in Q4 2016 (Exhibit 1), largely due to uneven rental growth across the industrial clusters.
- **Improvement in rents seen for industrial clusters in the North and West regions.** After witnessing declining rents in Q3 2016, industrial clusters in the North (Woodlands – Sembawang – Admiralty – Yishun) and West regions (Clementi – Toh Tuck – Bukit Batok, and Pioneer – Tuas) saw growth of between 4.4% and 6.1% q-o-q in Q4 2016.
- **Lower rents seen in Kaki Bukit – Ubi – Paya Lebar – Eunos, Macpherson – Tai Seng - Defu and Bukit Merah – Alexandra – Jalan Kilang clusters during Q4 2016.** In particular, rents in the Kaki Bukit – Ubi – Paya Lebar – Eunos cluster fell 7.1% q-o-q to \$2.10 psf pm after a marginal rebound in Q3 2016. Meanwhile, rents for Macpherson – Tai Seng - Defu and Bukit Merah – Alexandra – Jalan Kilang clusters continued to fall for the second quarter.
- **Business Park rents held steady** in Q4 2016 at \$4.25 psf pm in spite of higher leasing activities in Q4 2016 (48 transactions) compared to Q3 2016 (42 transactions).

Average price of upper-floor strata-titled factory units slipped in Q4 2016 while demand held firm

- **Demand has been constant** for upper-floor strata-titled factory units in Q4 2016 (158 caveats) and Q3 2016 (157 caveats).
- **A slightly higher number of new sale transactions were lodged in Q4 2016 (17 caveats)**, compared to 10 caveats lodged in Q3 2016. Seven of the new sale caveats in Q4 2016 were transacted at Mandai Connections.
- **Total resale transactions held steady** at 141 caveats in Q4 2016, slightly lower than 147 caveats in Q3 2016. Demand for factory developments with lease tenures of 30-years and below increased by 24.1% q-o-q in Q4 2016 (36 caveats). Demand for factory development with a lease tenure of 31 to 60 years held steady in the last two quarters (Q4 2016: 81 caveats and Q3 2016: 82 caveats). Demand for freehold factory developed slipped slightly to 24 caveats in Q4 2016 from 27 caveats in Q3 2016.
- **Average island-wide factory price slipped 10.5% q-o-q in Q4 2016**, largely due to higher proportion of resale transactions for factory developments with lease tenure of 31 to 60 years (Exhibit 3), which were transacted at lower psf pricing this quarter.

Demand for upper-floor strata-titled warehouse units continues to be sluggish as average prices held steady

- **Only 5 caveats of upper-floor strata-titled warehouse units lodged in Q4 2016** (Exhibit 2), lower than the 9 caveats lodged in the preceding quarter.
- **Average island-wide warehouse pricing dipped slightly because of a freehold warehouse transaction.** The 3,670 sq ft warehouse at Ho Seng Lee Flatted Warehouse development was transacted at S\$458 psf in December 2016, bringing the average freehold warehouse price down by 4.0% q-o-q.

Market Outlook

- Singapore economy grew by 2.0% for the whole of 2016, and this modest pace of growth is expected to extend into 2017. The Ministry of Trade and Industry (MTI) forecasts Singapore economic growth at a pace of 1.0% to 3.0% in 2017.
- The prospect of a subdued economic outlook and potentially muted overall performance of the manufacturing sector are exerting pressures on industrialists and SME end-users to manage their occupancy and operating costs more tightly.

EXHIBIT 1

Average Monthly Gross Rentals for Conventional Industrial Space by Cluster

Industrial Cluster	Monthly Gross Rentals (Upper Floor, S\$ psf)		% Change (q-o-q)
	Q3 2016	Q4 2016	
Kaki Bukit - Ubi - Paya Lebar - Eunos	\$2.26	\$2.10	-7.1%
Macpherson - Tai Seng - Defu	\$1.84	\$1.80	-2.6%
Kallang - Geylang - Bendemeer	\$3.06	\$3.06	No change
Bukit Merah - Alexandra - Jalan Kilang - Pasir Panjang	\$2.84	\$2.73	-3.8%
Serangoon - Ang Mo Kio - Lorong Chuan - Toa Payoh - Pempin	\$1.86	\$1.88	1.2%
Clementi - Toh Tuck - Bukit Batok	\$1.55	\$1.62	4.6%
Pioneer - Tuas	\$1.62	\$1.71	6.1%
Woodlands - Sembawang - Admiralty - Yishun	\$1.37	\$1.43	4.4%
Average	\$2.05	\$2.04	-0.4%
Business Park Space (Island-wide)	\$4.25	\$4.25	No change

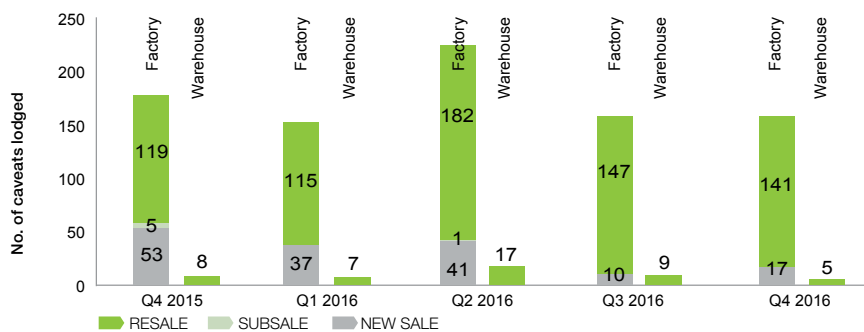
Source: Knight Frank Research

*Range of rentals is estimated based on the average of minimum and maximum rentals derived.

*Only rents of units on upper floors are included

EXHIBIT 2

Number of Caveats Lodged for Strata-titled Factory and Warehouse Units*

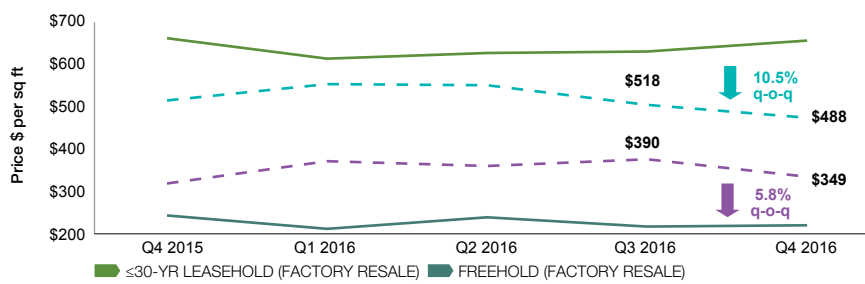


Source: REALIS (as at 25 January 2017), Knight Frank Research

*Note: (1) Transactions are based on units on upper floors only, (2) some caveats may comprise more than one strata unit

EXHIBIT 3

Average Prices of Strata-titled Factory and Warehouse units, and Average Resale Prices of Factory units by Tenure, as at August 2016



Source: REALIS (as at 25 January 2017), Knight Frank Research

*The SIPMM PMI Monthly Bulletin compiled by the Singapore Institute of Purchasing and Materials Management (or in short, SIPMM, is based on data compiled from monthly replies to questions asked of purchasing executives in over 150 industrial companies. The survey is based on several industry groupings, and weighted on each industry's contribution to Gross Domestic Product. Survey responses reflect the change, if any, in the current month compared to the previous month. The PMI reading above 50 indicates that the manufacturing economy is generally expanding and that the economy is generally declining when the reading falls below 50.

*According to the Economic Development Board's (EDB) report on monthly manufacturing performance released on 23 December 2016.

*According to the Ministry of Manpower's (MOM) report on quarterly employment change by industry released on 13 December 2016.

Island-wide Forecast by property types for Q4 2017

Average rents
-5.0% to -8.0% y-o-y

Average price for leasehold factory and warehouse units
-5.0% to -8.0% y-o-y

Average price for freehold factory and warehouse units
0.0% to 2.0% y-o-y

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