

INDUSTRIALISTS ON LOOKOUT FOR OPPORTUNE DEALS AMID SOFTENING PRICES AND RENTS

Overall transaction volume of strata-titled industrial units remained low in Q1 2016. While average price of factory units slipped, warehouse prices improved on the back of higher-priced transactions in the Central Region.

Contraction in the manufacturing sector moderated in Q1 2016:

Based on Ministry of Trade and Industry (MIT)'s advance estimates, Singapore's manufacturing sector contracted further by 2.0% year-on-year (y-o-y) in Q1 2016, albeit moderated compared to the 6.7% y-o-y decline in Q4 2015. On a quarter-on-quarter (q-o-q) seasonally-adjusted annualised basis, the sector rebounded from 4.9% decline in Q4 2015 to 18.2% growth in Q1 2016. The Singapore Purchasing Managers' Index, published by the Singapore Institute of Purchasing and Materials Management (SIPMM), rose to 49.4 in March 2016, up from 48.5 in February 2016. This is an improvement in industrialists' sentiment despite the persistent contraction of the index.

Under the H1 2016 Industrial Government Land Sale (IGLS) programme, a total site area of 12.24 hectares was released; six sites on the Confirmed List and four sites on the Reserve List. Overall, these sites are mostly smaller land plots with shorter land tenure of 20 to 30 years and deemed "less suitable" for development into multiple-user strata-titled industrial units.

Lowest demand recorded for upper-floor strata-titled factory units in ten years:

Overall demand for upper-floor strata-titled

factory units weakened by 13.6% q-o-q and 41.9% y-o-y to 108 caveats in Q1 2016, the weakest in ten years (Exhibit 1). While resale transactions held fairly steady at 103 caveats, only five new sale caveats were recorded in Q1 2016. These new sale caveats were largely contributed from the 30-year leasehold property transactions from Mandai Connection.

Resale transactions of upper-floor strata-titled factory units slid moderately by 12.0% q-o-q to 103 caveats in Q1 2016. In particular, resale transactions of freehold industrial units increased by 40.0% q-o-q to 21 caveats this same quarter, while leasehold transactions fell 27.8% q-o-q to 70 caveats. Although industrialists remained fairly cautious towards business expansion, there are signs of deep-pocketed industrialists sourcing for value-buys, especially industrial properties with longer lease tenures (particularly freehold) and better building specifications.

Average price for factory units declined marginally in Q1 2016:

Island-wide average price for upper-floor strata-titled factory units fell by 1.0% q-o-q to \$422 psf in Q1 2016, largely attributed to the decline in average price of resale factory units with lease tenures of 30 years or less.

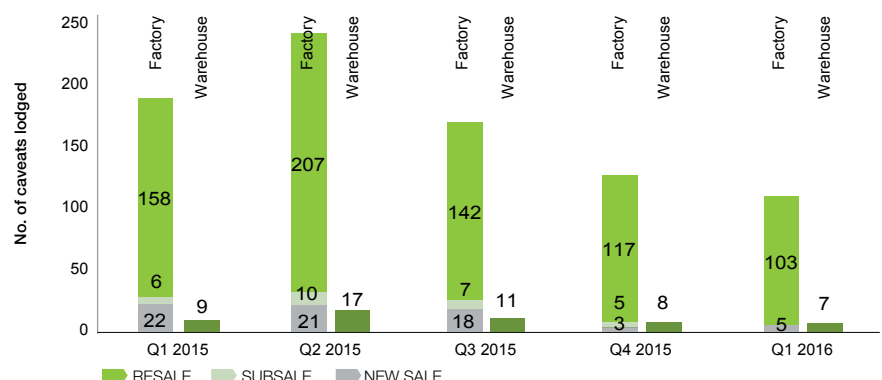


TAN BOON LEONG
Executive Director & Head,
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"With limited sizeable land sales going forward, it is timely for developers of existing new multiple-user strata-titled industrial projects to clear their unsold inventory."

EXHIBIT 1

Number of Caveats Lodged for Strata-titled Factory and Warehouse Units*, as at Q1 2016



Source: Knight Frank Research

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

Average price of warehouse units continue to increase in Q1 2016:

Island-wide average price for upper-floor strata-titled warehouse units saw marked increase of 7.2% q-o-q to \$567 psf in Q1 2016. This was due to higher-priced transactions of 60-year and freehold warehouse units located in the Central Region.

Island-wide rents of upper-floor industrial units trended lower in Q1 2016:

Overall island-wide rents slid 1.2% q-o-q in Q1 2016 (Exhibit 3). The Pioneer – Tuas

cluster reported the largest cutback by 8.3% q-o-q to \$1.77 psf in the quarter, chiefly owing to the ample supply of strata-titled industrial spaces and limited pool of tenants. With falling average rents, more tenants are on a close look-out for better-located industrial units, especially those properties equipped with good building specifications.

MARKET OUTLOOK

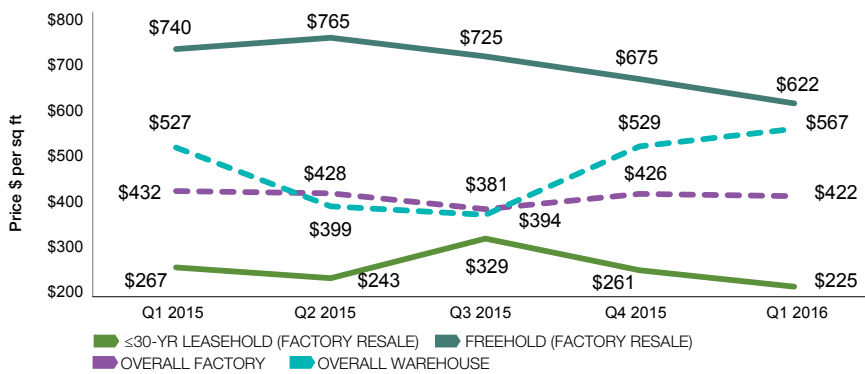
Despite the continuing weak market sentiment, the industrial sector entered 2016 with a tint of optimism and improved sentiments, with buyers observed to start sourcing and securing good property deals

in view of falling prices. Taking advantage of the limited sizeable industrial land sale sites announced by the government for H1 2016, developers could see it as opportune time to clear their unsold strata-titled industrial inventory as future supply of strata-titled industrial spaces could taper over time.

Given the upcoming industrial space of 26.2 million sq ft in 2016 coupled with cautious sentiment that prevails among industrial tenants in 2016, overall average rents are expected to moderate by between 5% and 10% y-o-y by the end of this year. Average prices for leasehold factory and warehouse units could soften further by 5% to 7% y-o-y by Q4 2016, while average prices for freehold factory and warehouse units are expected to hold firm given its limited supply.

EXHIBIT 2

Average Prices of Strata-titled Factory and Warehouse units, and Average Resale Prices of Factory units by Tenure



Source: REALIS (as at 15 April 2016), Knight Frank Research
*Transactions are based on units on upper floors only

EXHIBIT 3

Average Monthly Gross Rentals for Conventional Industrial Space by Cluster

Industrial Cluster	Monthly Gross Rentals (Upper Floor, S\$ psf)		% Change (q-o-q)
	Q4 2015	Q1 2016	
Kaki Bukit - Ubi - Paya Lebar – Eunos	\$2.31	\$2.27	-1.7%
Macpherson - Tai Seng – Defu	\$1.89	\$1.90	0.5%
Kallang – Geylang – Bendemeer	\$2.93	\$2.83	-3.4%
Bukit Merah - Alexandra - Jalan Kilang - Pasir Panjang	\$2.94	\$3.06	4.1%
Serangoon - Ang Mo Kio - Lorong Chuan -Toa Payoh - Pempin	\$1.92	\$1.89	-1.6%
Clementi - Toh Tuck - Bukit Batok	\$1.57	\$1.54	-1.9%
Pioneer - Tuas	\$1.93	\$1.77	-8.3%
Woodlands - Sembawang - Admiralty- Yishun	\$1.36	\$1.38	1.5%
Average	\$2.11	\$2.08	-1.2%
Business Park Space (Island-wide)	\$4.42	\$4.41	-0.2%

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

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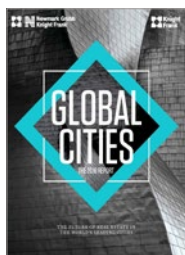
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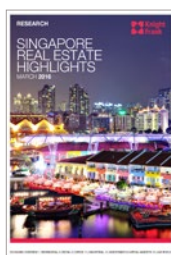
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