

PASSIVE DEMAND FOR INDUSTRIAL SPACE EXPECTED IN 2017 AMID MACROECONOMIC HEADWINDS AND STRUCTURAL INDUSTRY CHANGES

Strong headwinds plaguing the manufacturing industry continued to exert downward pressure on industrial space rentals and prices for Q1 2017, resulting in an overall contraction of industrial property market performance. In anticipation of a modest economic growth forecast 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.

Singapore's manufacturing performance saw signs of reprieve in Q1 2017

- **The PMI¹ index showed improved sentiments within the manufacturing sector.** The Singapore Purchasing Managers' Index recorded seven consecutive quarters of expansion and improved to between 50.9 and 51.2 in the first three months of 2017, largely credited to higher new orders, new exports and higher factory output by the manufacturing sector.
- **Factory output grew 12.6% year-on-year (y-o-y) in February 2017².** On a three-month moving average basis, manufacturing output rose 12.8% in February 2017, compared to a year ago. The increase was mainly supported by the increased output in the electronics manufacturing cluster (+39.8% y-o-y), the precision engineering cluster (+26.2% y-o-y) and the general manufacturing (+3.3% y-o-y). Conversely, demand in the biomedical manufacturing cluster (-2.6% y-o-y) and the transport engineering cluster contracted (-9.6% y-o-y) in February 2017.
- **Non-oil domestic exports registered a 16.5% increase in February 2017, bringing it to the fifth consecutive monthly rise in March.** This is the strongest growth streak since October 2010, surpassing market expectations of 7.3%.



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“As challenges continue to impact industrialists, demand for industrial properties is expected to remain subdued for at least the next two to three quarters. The lower property prices presents an investment opportunity for industry players looking to own industrial property for future business needs.”

More structural support for industrialists through the launch of Industry Transformation maps amid a slowing economy

- **Negotiations on the Trans-Pacific Partnership (TPP) slowed to a grinding halt as US withdrew from the trade agreement talks.** The withdrawal of US from the TPP has indefinitely pushed back the effective date of the trade agreement, which would have given significant boost to Singapore's economy. On a positive note, Japan is eager to revive negotiations to pursue an 11-nation TPP without US participation.
- **Launch of the Industrial Transformation Maps (ITMs) for precision engineering, air transport, logistics and food manufacturing.** The ITMs come from an S\$4.5 billion Industry Transformation Programme, and are purposed as roadmaps for specific sectors to future-proof themselves against potential challenges. Details such as the use of policies, collaboration, technology, grants and injection of capital to overcome industry-specific obstacles and promote growth of the industries can be found in the ITMs.

¹The 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.

²According to the Economic Development Board's (EDB) report on monthly manufacturing performance released on 24 March 2017.

- **Announcement on water price hike set to increase overhead cost for industrialists.** Water prices are set to increase by 30% over two phases in July 2017 and 2018 respectively as announced in Budget 2017. This will add further pressure on the overall overhead cost for most industrialists.

Overall island-wide rents fell broadly in Q1 2017

- **Overall island-wide rents slipped by 2.0% q-o-q** to \$2.00 per sq ft per month (psf pm) in Q1 2017 (Exhibit 1), largely due to falling rental rates across most of the industrial clusters.
- **The Bukit Merah – Alexandra – Jalan Kilang clusters emerge as the only clusters with a considerable appreciation of rents.** After witnessing declining monthly rents in Q4 2016 to \$2.74 psf, rental in the cluster has recovered to \$3.09 psf in Q1 2017 due to rental transactions of high-specification factory buildings like Cendex Center and The Alexcier.
- **Lower rents seen in Macpherson – Tai Seng – Defu and Woodlands – Sembawang – Admiralty - Yishun clusters during Q1 2017.** In particular, rents in the Woodlands – Sembawang – Admiralty - Yishun cluster fell 15.3% q-o-q to \$1.24 psf pm after a marginal uptick in Q4 2016. Meanwhile, rents for Macpherson – Tai Seng - Defu and Bukit Merah – Alexandra – Jalan Kilang clusters fell for the third consecutive quarter.
- **Business Park rents held steady** in Q4 2016 at \$4.25 psf pm in spite of lower leasing activities in Q1 2017 (32 transactions) compared to Q4 2016 (48 transactions).

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)
	Q4 2016	Q1 2017	
Kaki Bukit - Ubi - Paya Lebar – Eunos	\$2.10	\$2.11	0.4%
Macpherson - Tai Seng – Defu	\$1.80	\$1.57	-14.6%
Kallang - Geylang – Bendemeer	\$3.06	\$2.98	-2.6%
Bukit Merah - Alexandra - Jalan Kilang - Pasir Panjang	\$2.73	\$3.09	13.1%
Serangoon - Ang Mo Kio - Lorong Chuan -Toa Payoh - Pemimpin	\$1.88	\$1.82	-3.2%
Clementi - Toh Tuck - Bukit Batok	\$1.62	\$1.48	-9.4%
Pioneer - Tuas	\$1.71	\$1.69	-1.1%
Woodlands - Sembawang - Admiralty- Yishun	\$1.43	\$1.24	-15.3%
Average	\$2.04	\$2.00	-2.0%
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.

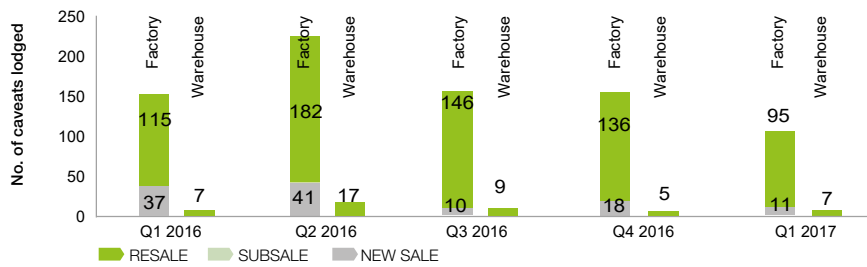
*Only rents of units on upper floors are included

Higher average price of upper-floor strata-titled factory units recorded in Q1 2017 albeit decline in transaction volume

- **Average island-wide factory price appreciated by 12.7% q-o-q in Q1 2017**, largely due to higher average prices transacted for resale factories. Average price for resale factories rose 19.9% from \$345.5 in Q4 2016 to \$414.3 in Q1 2017.
- **Demand for upper-floor strata-titled factory units dwindled** in Q1 2017 (106 caveats) from Q4 2016 (154 caveats). **11 new sale transactions for factories were lodged in Q1 2017 on the back of fewer industrial projects launches this quarter.** More than half of the new sale caveats lodged in Q1 2017 were from the West Region.
- Meanwhile, **total resale transactions fell** from 136 caveats in Q4 2016 to 95 caveats in Q1 2017. Demand for factory units with lease tenures of 30-years and below fell 52.9% from 34 caveats in Q4 2016 to 16 caveats in Q1 2017. Depicting a similar downward trend, transactions of factory units with lease tenures of 31 to 60 years dipped 24.3% from 78 caveats in Q4 2016 to 59 caveats in Q1 2017. Demand for freehold factories also fell for the third consecutive quarter to 19 caveats in Q1 2017.

EXHIBIT 2

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



Source: REALIS (as at 24 April 2017), Knight Frank Research

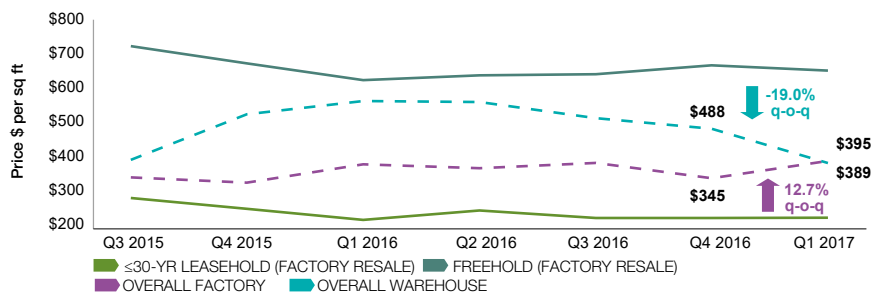
*Note: (1) Transactions are based on units on upper floors only, (2) some caveats may comprise more than one strata unit

Slow demand for upper-floor strata-titled warehouse units dragged average prices

- Only seven caveats of upper-floor strata-titled warehouse units were lodged in Q1 2017 (Exhibit 2), slightly higher than the five caveats lodged in the preceding quarter.
- Average island-wide prices of warehouses with 30 years lease and below dipped due to the sale of a large warehouse unit (9,396 sq ft) at the Intrepid Warehouse Complex. The warehouse was transacted at S\$213 psf in March 2017. This brought the average warehouse price with leases of 30 years and below down by 24.6% q-o-q. (Exhibit 3)

EXHIBIT 3

Average Prices of Strata-titled Factory and Warehouse units, and Average Resale Prices of Factory units by Tenure, as at April 2017



Source: REALIS (as at 24 April 2017), Knight Frank Research

Market Outlook

- The overall industrial property sector faces continuing strong headwinds both from macro environment and domestic fronts, such as a slowdown in the TPP negotiations, uneven global trade and the upcoming water price hike. These issues, should there be no further relief, are envisaged to cast a fairly subdued picture for the next three quarters of 2017.
- To support the growth prospects of the sector, the ITMs could help the industrialists address key issues within each industry and deepen partnerships between the industrialists and Government.
- Overall average rents and prices for leasehold industrial units are expected to weaken further; as demand for industrial spaces is likely to remain relatively passive in the short term this year.
- On a brighter note, with the rarity of freehold industrial properties, average prices for such properties are expected to hold or increase marginally.

Island-wide Forecast by property types for Q4 2017

Average rents
-3.0% to -7.0% 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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