

# SINGAPORE RESEARCH INDUSTRIAL



## Q1 2019 INDUSTRIAL MARKET SNAPSHOT

Upcoming New Supply (2019 - 2023):  
**51.8 million sq ft** Gross Floor Area

Average Industrial Rents (Island-wide):

**S\$2.00 psf pm**

— No Change q-o-q

▲ 1.0% increase y-o-y

Average Business Park Rents (Island-wide):

**S\$4.32 psf pm**

▲ 0.5% increase q-o-q

▲ 3.1% increase y-o-y



## INDUSTRIAL RENTS STAYED FLAT IN Q1 2019 AMID UNCERTAIN ECONOMY

Industrial rents largely stayed unchanged, amid mixed performance from different clusters.



**TAN BOON LEONG**  
Executive Director & Head,  
Industrial

“The industrial space market is evolving and the demand on flexibility of space is growing. Despite the uncertain external environment, Singapore continues to attract multinational companies specialising in high-value manufacturing.”

- **The Monetary Authority of Singapore expects Singapore economy to grow by 2.5% or slightly lower.** Singapore manufacturing output improved marginally by 0.7% year-on-year (y-o-y) in February 2019. Output from the Biomedical manufacturing sector increased the most by 13.3% in February, supported by the expansion of the pharmaceutical sector and sustained export demand from the medical technology sector. Separately, output from the electronics and precision engineering sectors decreased by 1.1% y-o-y and 14.9% y-o-y respectively.
- **Most manufacturing firms (a weighted 76%) expect business conditions from January to June 2019 to remain similar to Q4 2018.** The biomedical manufacturing and transport engineering sectors expect a positive business outlook in the first half of 2019. In contrast, the electronics and precision engineering sectors foresee weaker orders in H1 2019.
- **Non-oil domestic exports (NODX) dropped by 10.1% y-o-y in January, followed by a 4.9% y-o-y rebound in February.** The increase in NODX in February was mainly led by the pharmaceuticals sector. Notwithstanding, the electronics sector continued to face headwinds. NODX from electronics sector declined by 8.0% y-o-y in February 2019.
- **Singapore Purchasing Managers' Index (PMI)<sup>1</sup> was down for the sixth consecutive month in February.** The electronics sector contracted for the fourth consecutive month, dipping by 0.1 point to 49.5 in February.

<sup>1</sup>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.

## Trends

- **Fears of a global economic slowdown mounted as US flash PMI missed estimates.** The Markit Purchasing Manager's Index, which tracks activity in the US manufacturing sector, went down by 0.5 % to 52.5. Germany manufacturing sector also contracted for the third month straight, according to the flash PMI by IHS Markit. The weaker manufacturing statistics, including those of China and Japan, are likely to curb the manufacturers' intent to expand their physical footprint in the immediate term.
- **Singapore small and medium-sized manufacturing enterprises are looking to invest in business transformation, according to a poll by Singapore Business Federation and DP Info Group.** The manufacturing sector has the highest uptick in capital investment expectations among other sectors, as they are investing in digitalising its processes amid the weaker expectations in turnover and profitability from April 2019 to September 2019.
- **Singapore aims to be a leader in urban agriculture and aquaculture technology.** Singapore will open an 18 hectare Agri-Food Innovation Park in Sungei Kadut, and it will be ready in phases from Q2 2021. The park is expected to draw indoor plant factories, insect farms and animal feed production facilities.
- **The manufacturing sector is appealing to manufacturers of low volume but high-quality products,** given Singapore's resilient supply chain and strong intellectual property regimes. Becton Dickinson (BD), an American medical equipment manufacturer, recently set up its first Advanced Molding Centre in Asia in Tuas. The centre is a flagship plastic molding manufacturing facility for BD in Asia, and is one of the largest and most sophisticated plastic molding plants in the world for the company.

## The industrial property market has stayed largely flat in Q1 2019.

- **Based on Knight Frank basket of industrial properties, average rents for island-wide industrial space stayed unchanged q-o-q** at S\$2.00 per square foot per month (psf pm) in Q1 2019 amid the uncertain environment. The market was at an equilibrium state, with upcoming supply expected to match the future demand for space.
- **The number of tenancies for single-user factory in Jan and Feb 2019 recorded the largest increase y-o-y.** The rental transactions of single-user factories went up to 130 transactions in Jan-Feb 2019 from 94 tenancies over the same period in 2018. The increase in tenancies of single-user factory was largely due to the lower rents.
- Separately, there was a sharp decline in leasing activity for warehouses and multiple-user factories in February 2019. Historically, leasing activity tends to be slower in February due to festivities.
- **On a y-o-y basis, there were more tenancies concluded in Jan-Feb 2019 for warehouses, increasing by 0.5%.** The vacancy rate for warehouses have also steadily declined, from 12.5% in Q3 2017 to 10.5% in Q4 2018.

### 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)
	Q1 2019	Q4 2018	
Kaki Bukit - Ubi - Paya Lebar - Eunos	\$2.10	\$2.10	-
Macpherson - Tai Seng - Defu	\$1.60	\$1.60	-
Kallang - Geylang - Bendemeer	\$3.20	\$3.20	-
Bukit Merah - Alexandra - Jalan Kilang - Pasir Panjang	\$2.70	\$2.70	-
Serangoon - Ang Mo Kio - Lorong Chuan - Toa Payoh - Pemimpin	\$1.80	\$1.80	-
Clementi - Toh Tuck - Bukit Batok	\$1.60	\$1.60	-
Pioneer - Tuas	\$1.65	\$1.65	-
Woodlands - Sembawang - Admiralty - Yishun	\$1.40	\$1.40	-
<b>Average</b>	<b>\$2.00</b>	<b>\$2.00</b>	<b>-</b>
Business Park Space (Island-wide)	\$4.32	\$4.30	0.5%

Source: Knight Frank Research

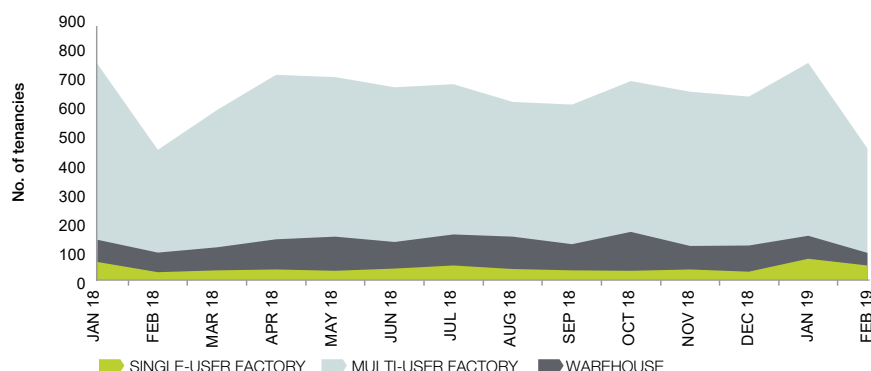
Note: Rentals are based on Knight Frank's basket of industrial properties, which are monitored every quarter.

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

\*\* The percentage change may not add up during rounding differences.

## EXHIBIT 2

## Rental Transaction Volume of Factory and Warehouse Units



Source: J-SPACE (as at 26 March 2019), Knight Frank Research

## Market Outlook

- The outlook of the manufacturing sector continues to be weighed down by the slowing demand of output from the electronics sector. Notwithstanding, there is greater optimism that a trade agreement can be reached between the China and United States.
- As at Q4 2018, there is about 51.8 million sq ft of industrial space coming on stream from 2019 onwards. Out of the upcoming supply, about 3.2 million sq ft of multiple-user factory space and 9.8 million sq ft of single-user factory space are expected to come on stream by end 2019.
- There is about 6.8 million sq ft gross floor area of warehouse space coming on stream from 2019 and beyond, according to JTC Q4 statistics. Notwithstanding, there is only about 2.1 million sq ft coming on stream in 2019, less than the 2.7 million sq ft net new supply and 2.9 million sq ft net absorption in 2018. We project warehouse rents to stay flat for the rest of 2019.
- Overall, Knight Frank projects that the industrial rents to stay flat, barring any external shocks.

## EXHIBIT 3

## Island-wide rental and price forecasts, by property types

Forecast for end 2019

**-1.0% to 1.0%**

y-o-y

Average rents

Source: Knight Frank Research

### FOR ENQUIRIES ON INDUSTRIAL PROPERTIES, PLEASE CONTACT:

#### Tan Boon Leong

Executive Director and Head  
Industrial

6228 6894

boonleong.tan@sg.knightfrank.com

### FOR FURTHER INFORMATION, PLEASE CONTACT:

#### Lee Nai Jia

Senior Director and Head  
Research

6228 6878

naijia.lee@sg.knightfrank.com

#### Lucy Zhu

Analyst

Research

6228 6584

lucy.zhu@sg.knightfrank.com



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