

HIGH-SPECIFICATION INDUSTRIAL SPACE IS SET TO BE THE NEXT BRIGHT SPOT AS THE GOVERNMENT AND MAJOR INDUSTRIALISTS EXPLORE TECHNOLOGY AND AUTOMATION

Improved outlook for the manufacturing industry is expected to stay till Q3 2017, lifting demand for high-specification industrial spaces through 2017. Government stepped up the industrial land supply for H2 2017 offering more alternatives to end-users. In anticipation of the completion of the Tuas mega port by 2040, Singapore government and major industrialists are ramping up their infrastructure in the West Region.

Improved outlook for manufacturing sector to continue into Q3 2017

- **Singapore's economy grew by 2.9% y-o-y in Q2 2017, faster than the 2.5% growth registered in the previous quarter.** The manufacturing sector continued to grow at a robust pace of 8.1% y-o-y, primarily supported by the electronics and precision engineering clusters, which expanded on the back of strong global demand for semiconductors and semiconductor-related equipment. Transportation & storage sector saw growth at 3.5% y-o-y, following its 4.4% expansion the previously quarter. Conversely, the construction sector contracted by 5.7% y-o-y, due to a fall in both private and public sector construction output.
- **The Singapore Purchasing Managers' Index (PMI)¹ expanded for the 10th consecutive month in June 2017.** The PMI hovered between 50.8 and 51.1 in Q2 2017, with improvements in new orders, new exports, inventory and factory output. The local manufacturing sector continues to see steady demand despite strong headwinds and uncertainties in the global market. According to the Singapore Economic Development Board (EDB), the manufacturing sector expects business situation to improve between April and September 2017. The manufacturing sector also report improved productivity with negative change in manufacturing employment for the past ten quarters against higher value added per worker.
- **Government stepped up industrial land supply in H2 2017 Industrial Government Land Sales Programme (IGLS) to 13.9 hectares (ha).** A total of eight sites were on the Confirmed List amounting to 4.51 ha, and another six sites (9.39 ha) were on the Reserved List. With effect from the H2 2017 IGLS programme, the set of minimum building-specification requirements will be waived for small plots that are below 1.0 ha. This will allow end-users more flexibility in customising their developments to suit their operations.



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“High-specification industrial spaces is set to be the next bright spot as the government and major industrialists gravitate towards adaptation of technology and automation in their day-to-day operations.”

¹ 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.

Gearing up of infrastructure in the West Region in anticipation of the completion of the Tuas mega port by 2040

- **Phase one of Tuas mega port on track for opening in 2021.** The Tuas mega port will be built across four phases, and is expected to complete by 2040. Upon completion, the Tuas mega port will be able to handle up to 65 million twenty-foot equivalent units of cargo annual. The Maritime and Port Authority of Singapore (MPA) is exploring new technology and automation to make the port operations more efficient.
- **Yang Kee Logistics has started building its S\$150 million logistics Hub in Tuas South Link 1.** The logistics hub which will span across 66,000 square meters (sq m) of Gross Floor Area (GFA), is set to be completed by end 2018. The facility, jointly developed with Logos Southeast Asia, will boost productivity by decreasing the turnaround time of container collection by 80.0%. This is achieved through the use of an automated crane hoisting system that requires lesser manpower to operate. Furthermore, jobs will be redesigned to suit the new functions, such as automation maintenance. With proper training to adapt to the new technology, workers will be able to earn more with these value-added jobs.
- **Tuas West Extension (TWE) opening brings convenience further west for workers in the Tuas industrial estate.** The 7.5km-long extension of the East-West Line will increase the efficiency of commute by shortening the travel journey significantly for workers and bring about cost-savings for companies in the locality, who hire shuttles for their employees. The TWE is expected to serve 100,000 commuters daily, and will support the long term.

Overall island-wide rents declined in Q2 2017

- **Overall island-wide rents fell 1.5% q-o-q** to \$1.97 per sq ft per month (psf pm) in Q2 2017 (Exhibit 1), mainly due to falling rental rates across most of the industrial clusters.
- **The Macpherson – Tai Seng – Defu clusters reported the strongest appreciation in rents**, with an 8.9% q-o-q increase from \$1.57 psf pm in Q1 2017 to \$1.71 psf pm in Q2 2017.
- **Biggest decline in rents seen in the Bukit Merah – Alexandra – Jalan Kilang clusters during Q2 2017**, with a drop of 10.1% q-o-q to \$2.78 psf pm in Q2 2017 from \$3.09 psf pm in Q1 2017, largely due to lower rental transactions reported from high-specification factory buildings like Cendex Center and The Alexcier.
- **Business Park rents witnessed a slight dip** in Q2 2017 at \$4.24 psf pm despite higher leasing activities in Q2 2017 (60 transactions) compared to Q1 2017 (32 transactions).

Strata-titled factory transactions picked up in Q2 2017 as average factory prices remain fairly stable

- **Average price of upper-floor strata-titled factory units improved 3.7% y-o-y in Q2 2017**, largely supported by price growth in freehold upper floor factories. Average leasehold upper-floor strata-titled factory price improved marginally by 1.0% y-o-y to \$334.6 psf, while average freehold upper-floor strata-titled factory price increased by 3.3% to \$653.5 psf y-o-y in Q2 2017.
- **Demand for strata-titled factory units improved** in Q2 2017 (184 caveats) from Q1 2017 (134 caveats). Only 11 new sale transactions for factories were lodged in Q2 2017 as fewer strata-titled industrial projects were launched. Majority of the new sale caveats lodged in Q2 2017 were from the North Region.
- **Total strata-titled factory resale transactions jumped a significant 46.6% q-o-q** from 118 caveats in Q1 2017 to 173 caveats in Q2 2017. Demand for leasehold factory units continues to be the strongest, accounting for 76.1% (140 caveats) of the total caveats lodged in Q2 2017.
- **Demand for strata-titled warehouse units halved in Q2 2017** (13 caveats) compared to one year ago (26 caveats), with average island-wide upper-floor strata-titled warehouse prices falling by 33.5% y-o-y to \$382.2 psf.

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 2017 | Q2 2017 | |
| Kaki Bukit - Ubi - Paya Lebar - Eunos | \$2.11 | \$2.11 | No change |
| Macpherson - Tai Seng - Defu | \$1.57 | \$1.71 | 8.9% |
| Kallang - Geylang - Bendemeer | \$2.98 | \$2.94 | -1.3% |
| Bukit Merah - Alexandra - Jalan Kilang - Pasir Panjang | \$3.09 | \$2.78 | -10.1% |
| Serangoon - Ang Mo Kio - Lorong Chuan -Toa Payoh - Pemimpin | \$1.82 | \$1.84 | 1.2% |
| Clementi - Toh Tuck - Bukit Batok | \$1.48 | \$1.42 | -4.1% |
| Pioneer - Tuas | \$1.69 | \$1.62 | -4.1% |
| Woodlands - Sembawang - Admiralty- Yishun | \$1.24 | \$1.33 | -7.3% |
| Average | \$2.00 | \$1.97 | -1.5% |
| Business Park Space (Island-wide) | \$4.25 | \$4.24 | -0.24% |

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

Island-wide Forecast by property types for Q4 2017

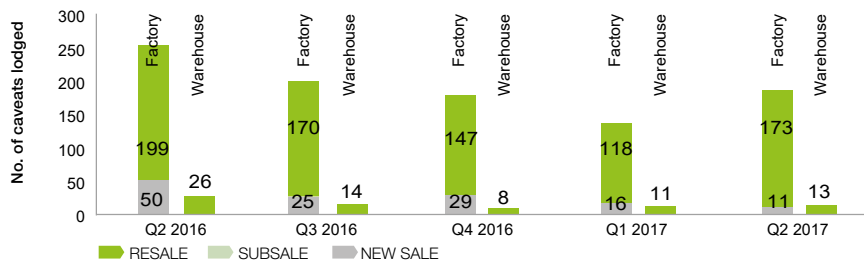
Average rents
-3.0% to -7.0% y-o-y

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

EXHIBIT 2

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

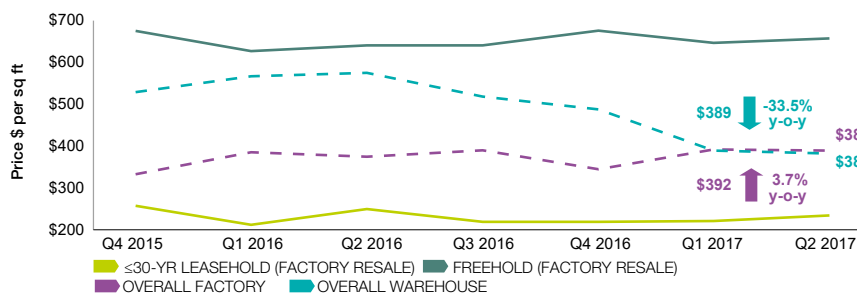


Source: REALIS (as at 24 July 2017), Knight Frank Research

*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



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

1) Average prices are based on units on upper floors only

Market Outlook

- The improved manufacturing outlook up till September 2017 is expected to support demand for high-specification industrial spaces throughout 2017.
- Major industrial players are adopting technology and automation in their operations to improve productivity, and the trend is expected to gather momentum in the short to medium term with support from the various government bodies.
- As part of the continuous support to help end-users secure industrial spaces, JTC released more small plots of sites under the H2 2017 IGLS programme, and will now allow higher flexibility for end-users to customise their developments. As a result, overall average rents and prices for leasehold industrial units are expected to compromise further since industrialists are offered more alternatives for industrial spaces.
- With the rarity of freehold industrial properties, average prices for such properties are expected to hold or increase marginally for this year.

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