SINGAPORE INDUSTRIAL

Softening performance prevailed in the strata-titled industrial property market in 3Q 2014 with low transaction volumes for both factory and warehouse segments. Asking rentals at key industrial clusters fell by an average 0.8 per cent quarter-on-quarter (q-o-q). Total upcoming supply of industrial space is estimated to be more than 27 million sq ft in 2015, more than twice that of 2014.

"Affected by JTC's revised subletting policy, the leasing market could see reshuffling activities by tenants next year. Demand for warehouse and logistics space is likely to stay healthy, while factory spaces with high specifications would remain sought after by end-users in growth industries."

LIM KIEN KIM
Executive Director & Head, Industrial

The rebound in manufacturing activities in 3Q 2014 was largely supported by the electronics and transport engineering clusters

Singapore's overall Gross Domestic Product (GDP based on 2010 prices, seasonally adjusted) saw a rebound of 3.1 per cent q-o-q in 3Q 2014 from 0.3 per cent q-o-q contraction in the previous quarter. The manufacturing sector saw 2.8 per cent q-o-q growth in 3Q 2014, a marked improvement compared to 14.9 per cent dip in the previous quarter.

The Index of Industrial Production posted 0.8 per cent q-o-q decline in 3Q 2014, compared to 2.6 per cent q-o-q increase in 2Q 2014. While the biomedical manufacturing cluster posted a steep fall of 15.5 per cent q-o-q in 3Q 2014, overall manufacturing activity was largely sustained by Electronics, Marine & Offshore Engineering and Land Transport Engineering clusters with q-o-q growth rates of 6.3 per cent, 8.7 per cent and 19.2 per cent respectively.

The Singapore Purchasing Manager's Index (SPMI) posted a moderate increase from 49.7 in August 2014 to 50.5 in September 2014. The recovery was attributed to further expansion in new orders and first-time expansion in new export orders, production output and imports. Stockholdings of finished goods continued to expand whilst contraction readings were recorded in overall inventory, input prices and employment.

Declined transactions for strata-titled factory and warehouse spaces

Total transaction volume of strata-titled factory units fell 60.5 per cent year-on-year (y-o-y) and by 15.6 per cent q-o-q to 216 units in 3Q 2014, the lowest sales volume recorded since 4Q 2008.

For sub sale and resale transactions, sales declined by 11.5 per cent and 24.9 per cent q-o-q respectively. Transaction of new sale factory units, however, increased from 41 units in 2Q 2014 to 51 units in 3Q 2014. New sales transaction were mainly attributed to projects such as ECO-TECH @ SUNVIEW (sold 19 units) and CT HUB2 (sold 17 units).

The lower transaction volume (in terms of both number of units and total area) was partially due to the muted purchasing power of industrial properties due to the Total Debt Servicing Ratio (TDSR) framework, which effectively limits buyers who are not eligible for higher mortgage loans.

Transactions of well-located new factory units provide support to prices

Despite lower transaction volume, island-wide average price for strata-titled factory spaces located on the upper floors averaged $439 per sq ft in 3Q 2014, a 6.4 per cent q-o-q increase.

New sale transactions contributed mostly to the higher island-wide average price. Notably, new sale transactions from CT HUB2 and AZ @ PAYA LEBAR have achieved $1,037 per sq ft and $1,594 per sq ft for selected units respectively.

In addition, resale transactions of factory units posted 3.9 per cent q-o-q increase in prices, where the Central Region saw a marked 23.5 per cent q-o-q increase.

However, the average price for sub sale transactions of factory units island-wide fell by 10.8 per cent q-o-q, with only 23 units transacted in 3Q 2014. Two sub sales in SYNERGY @ KB were traded at relatively low prices of $361 per sq ft and $330 per sq ft apiece.

Fewer transactions albeit with higher average prices for strata-titled warehouses

Sales volume of strata-titled warehouse space halved in 3Q 2014 with only 13 units sold compared to 24 transactions in the preceding quarter (Exhibit 4). Majority of warehouse units sold were made up of resale units. On an island-wide basis, the average transacted price of strata-titled warehouse space stood at $549 per sq ft in 3Q 2014 representing 11.5 per cent q-o-q increase.

Asking rents at key industrial clusters moderated in third quarter

Average asking rents of conventional industrial space at key industrial clusters decreased by 0.8 per cent q-o-q to $2.59 per sq ft in 3Q 2014 (Exhibit 6).

The q-o-q contraction of 7.5 per cent of asking rents in Woodlands-Sembawang-Admiralty-Yishun cluster was mainly contributed by higher competition with an influx of recently completed projects in the North, like Ark @ Gambas and Northspring BizHub.

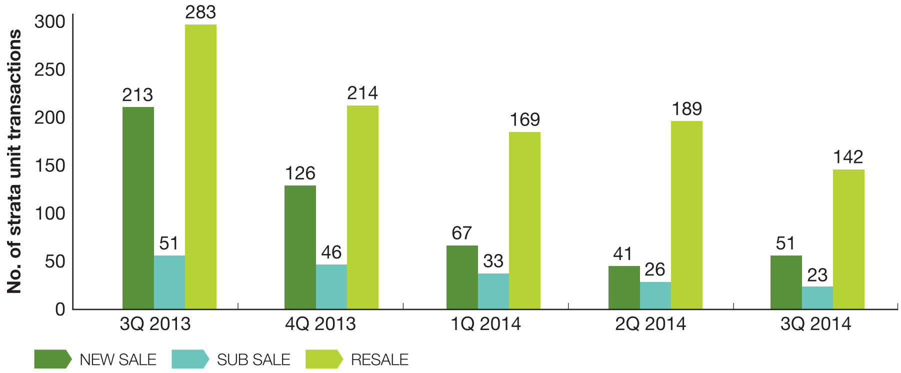
In terms of key tenant movements in business park space, UBS recently took up approximately 110,000 sq ft at HansaPoint @ CBP (Changi Business Park), significantly reducing the vacancy rate for AREIT in CBP. This space was previously occupied by Rohde & Schwarz and Credit Suisse.

Upcoming supply in 2015 slated to double from 2014

A total 17.5 million sq ft of warehouse space will be completed by 2018 and beyond, with 98.5 per cent from the private sector. A new 1 million sq ft warehouse facility at Jurong West by LF Logistics is expected to be completed by around 4Q 2015. The upcoming facility would serve to meet the potential demand from business trades such as e-commerce.

EXHIBIT 1

Sales Volume of Strata-titled Factory Units* as of 3Q 2014

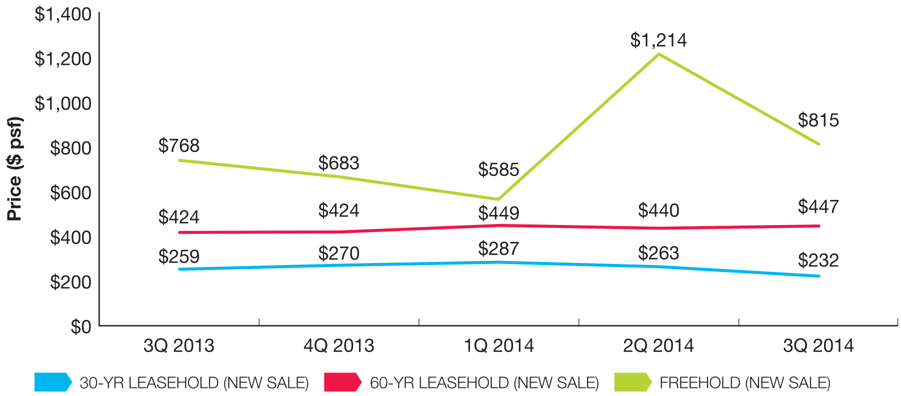


Source: REALIS (as at 24 Oct 2014), Knight Frank Research

*Transactions are only based on units on upper floors.

EXHIBIT 2

Average Prices of Strata-titled Factory Units* (New sale)

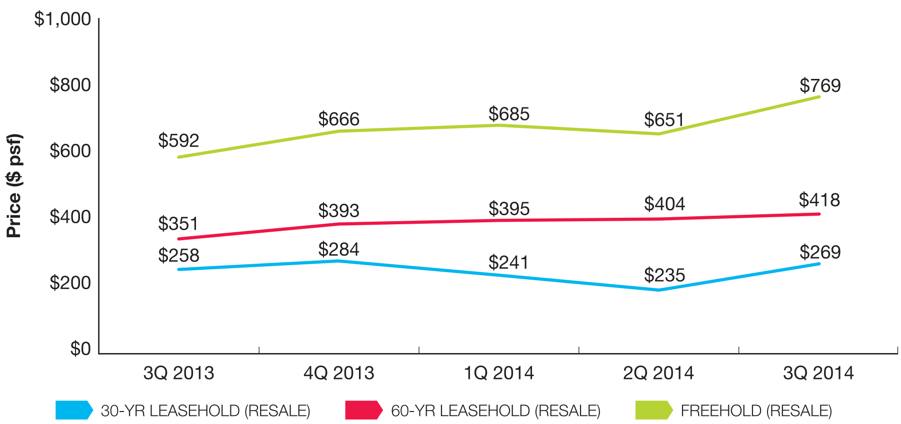


Source: REALIS (as at 24 Oct 2014), Knight Frank Research

*Transactions are only based on units on upper floors.

EXHIBIT 3

Average Prices of Strata-titled Factory Units* (Resale)



Source: REALIS (as at 24 Oct 2014), Knight Frank Research

*Transactions are only based on units on upper floors.

For the factory segment, there are a total of 3.84 million sq ft completed factory space in 3Q 2014. Some major completed developments include Premier @Kaki Bukit with gross floor area (GFA) of around 0.8 million sq ft, and Synergy @ KB with around 0.56 million sq ft GFA.

A total upcoming supply of 54.2 million sq ft factory space is anticipated by 2018 and beyond, with 92.5 per cent being developed by the private sector. Galaxis (Fusionopolis Phase 5 with 0.63 million sq ft) is slated for completion by end-2014.

Together with Fusionopolis Phase 2A, JTC Food Hub@Senoko and various other industrial developments, total upcoming supply of industrial space is estimated to be more than 27 million sq ft in 2015, more than twice that of 2014.

Other notable industrial developments that are set to complete beyond 2015 include Mapletree Business City Phase 2 with a total of 1.2 million sq ft, and a 0.54 million sq ft warehouse development at Pioneer Crescent by Kuehne+Nagel Real Estate.

Market Outlook

Further price moderation of strata-titled industrial properties likely in the next two to three quarters

In the coming quarters, buying interest for strata-titled factory and warehouse space could be relatively muted, mainly due to the weakened industrial rental performance for the past six months, Seller's Stamp Duty on industrial purchases and loan curbs imposed by the TDSR. There are, however, some locations that would potentially see continuing interest, especially in areas in the Central Region such as Bukit Merah, Geylang, Queenstown and Toa Payoh, with its close proximity to the city centre.

Together with the upcoming supply of industrial space, prices could face downward stress over the next two to three quarters, although the overall moderation could be cushioned by stable economic growth and the prospect of sustaining industrial activities in Singapore next year.

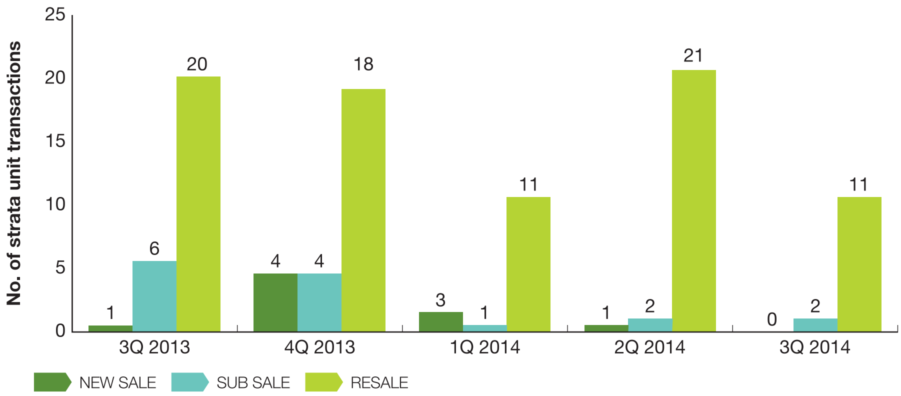
Looking into the medium term, demand for industrial space would evolve along with changes in manufacturing activities in Singapore. Consequent from the government's initiatives to grow high value-added industries, high-tech intensive and heavy-industrial end-users are looking for space with better building specification features. Industrial spaces with higher flexibility to fit a variety of trades are more sought after by end-users.

For instance, there is currently an increasing demand for high-specification industrial space in the cold-chain logistics segment, whereby more logistics players are looking into adding or converting conventional warehouse space to cold storage facilities to cater for various goods, such as healthcare, pharmaceutical and perishable goods.

On the other hand, labour-intensive industries with lower value-add products are observed to be considering relocation to alternative locations that offer lower rentals. Some industrial end-users shift out of the Central Region to operate in suburban industrial clusters in Singapore, while other larger-scale end-users relocate to neighbouring countries due to higher rental, operating and labour cost considerations in Singapore.

EXHIBIT 4

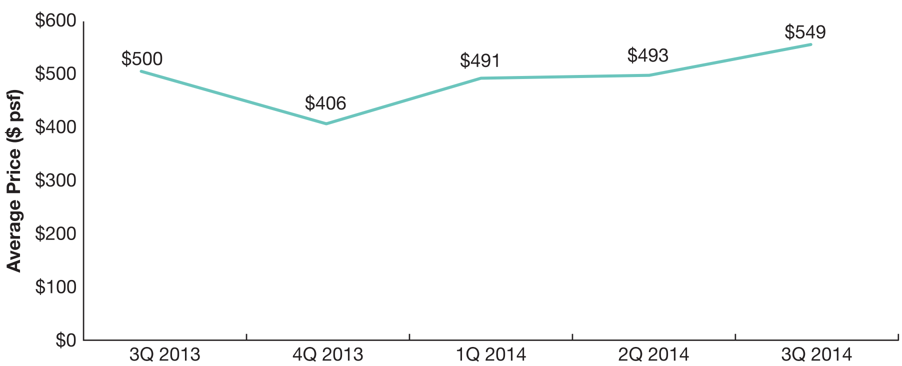
Sales Volume of Strata-titled Warehouse Units as of 3Q 2014



Source: REALIS (as at 24 Oct 2014), Knight Frank Research

EXHIBIT 5

Average Prices of Strata-titled Warehouse Units*



Source: REALIS (as at 24 Oct 2014), Knight Frank Research

*Transactions are only based on units on upper floors.

New JTC subletting policy: Impact on end-user lessees and sub-tenants

With effect from 1 October 2014, JTC has lowered the maximum allowable sublet quantum of industrial developments occupied by JTC's end-user lessees, from 50 per cent to 30 per cent of total GFA after five years from obtaining Temporary Occupancy Permit (TOP).

This sublet quantum cap does not apply to lessees subletting to their wholly-owned subsidiary or company in which they have a majority shareholding of at least 51 per cent.

JTC end-user lessees (i.e. industrial building owners who have been allocated land for productive use for a pre-determined lease period by JTC) with industrial developments of more than five years after TOP would have to explore ways to directly occupy the additional space of 20 per cent of total GFA in order to meet the subletting policy. The prospect of end-user lessees expanding their industrial space needs could bode well for the overall occupancy level of industrial space. However, end-user lessees who are looking to assign or transfer their lease to another party could be partly constrained by the subletting policy change in the short term. From a macro perspective, any future change in manufacturing trends and demand of production output could impact end-user lessees' industrial space needs, resulting in a potential need for a higher buffer of sublet space in future to cater to fluctuating business volumes. The subletting policy would need to be closely reviewed to assess its real impact on actual space needs from both large and smaller-sized industrial end-users.

Consequent to the new subletting policy that reduces allowable sublet spaces offered by end-user lessees, sub-tenants may have to find alternative locations. Multiple-user factory spaces could see an uptick in leasing demand in the short term. Yet, with an influx of upcoming new supply of industrial space next year, rental growth is expected to be capped with marginal increase.

EXHIBIT 6

Average Monthly Gross Rentals (Asking) for Conventional Industrial Space by Location

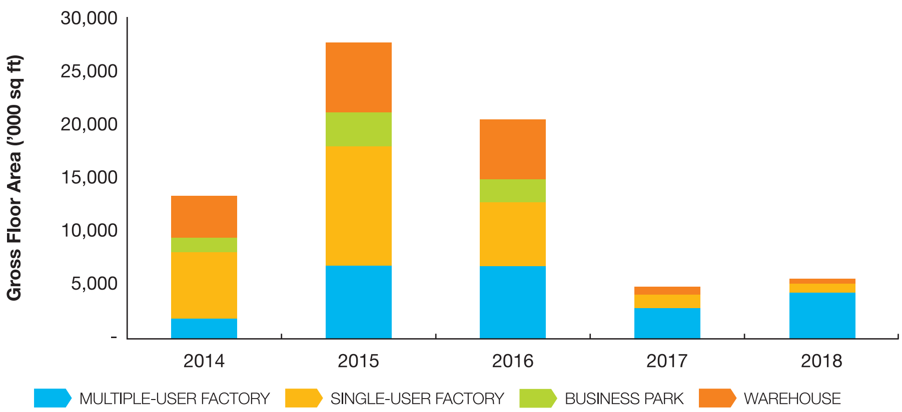
Industrial Cluster	Monthly Gross Rentals (Upper Floor, S$ per sq ft) 2Q 2014	3Q 2014	% Change (q-o-q)
Kaki Bukit - Ubi - Paya Lebar - Eunos	$2.84	$2.84	0.0%
Macpherson - Tai Seng - Defu	$2.19	$2.17	-0.9%
Kallang / Geylang / Bendemeer	$3.29	$3.33	1.2%
Bukit Merah - Alexandra - Jalan Kilang - Pasir Panjang	$3.59	$3.59	0.0%
Central Area: Serangoon / Ang Mo Kio / Lorong Chuang / Toa Payoh / Pemimpin	$2.63	$2.61	-0.7%
Clementi - Toh Tuck - Bukit Batok	$2.14	$2.14	0.0%
Woodlands - Sembawang - Admiralty - Yishun	$1.58	$1.46	-7.5%
Average	**$2.61**	**$2.59**	**-0.8%**
Business Park Space (Island-wide)	$4.54	$4.54	0.0%

Source: Knight Frank Research

(1) Range of rentals are estimated based on the average of minimum and maximum asking rentals derived from surveys.
(2) Only rents of units on upper floors are included.
(3) Starting from 3Q 2014, a new property basket of industrial clusters replaces the old basket that was reported in previous quarterly reports. The adjustment is made due to the expansion of various industrial clusters, changes in building age of properties and the take-up rates for the past year.

EXHIBIT 7

Potential Supply of Industrial space by expected year of completion as of 3Q 2014



Source: REALIS (as at 24 Oct 2014), Knight Frank Research

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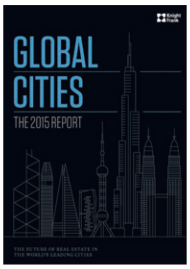

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