

DEMAND FOR INDUSTRIAL SPACE SOFTENED FURTHER, WITH LITTLE RELIEF FROM THE TOUGH BUSINESS CLIMATE

The industrial sector continued to face strong headwinds in most industries and sectors, putting further pressure on both industrial space rentals and prices in Q3 2016. Knight Frank forecasts that average island-wide rents could decline by -6.0% to -8.0% year-on-year (y-o-y) in Q4 2016.

Overall manufacturing economy remained tepid in Q3 2016

- **The manufacturing economy was tepid in the first two months of Q3 2016.** The Singapore Purchasing Managers' Index stood at 49.8 and 49.3 in August and July 2016 respectively, with scores of below 50 indicating that the manufacturing economy is generally declining.
- **Factory output grew 0.1% y-o-y in August 2016** according to the Economic Development Board's (EDB) report on monthly manufacturing performance released on 26 September 2016. This reflected greater stability, although this performance remains below expectations. The Precision Engineering, Electronics, and Chemicals clusters registered increases in output, while the General Manufacturing, Biomedical Manufacturing, and Transport Engineering clusters saw declines.
- **Employment in the manufacturing sector fell 3.4% q-o-q**, while the construction and services sectors saw employment growth of 0.2% and 7.6% q-o-q respectively. The number of layoffs for the first half of 2016 was the highest since 2009, with the services sector leading in proportion at 62% followed by the manufacturing sector at 29%. Overall, unemployment rate (seasonally adjusted) increased from 1.9% in March 2016 to 2.1% in June 2016.



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"Many opportunities have arisen in the current market – good specification and quality assets with 60-year and above tenures, which are far and few between, are highly sought after by industrialists as long-term investments."

Overall island-wide rents softened further in Q3 2016

- **Overall island-wide rents declined by 1.2% q-o-q** to \$2.08 per sq ft per month (psf pm) in Q3 2016 (Exhibit 1), as rents across most locations dropped.
- **The Pioneer – Tuas cluster suffered the largest decline of 9.6% q-o-q in Q3 2016**, mainly due to the under-performing oil and gas industry, related offshore and marine services, and general manufacturing that dragged down the activities of related and supporting trades agglomerated within the B2 cluster.
- **Rents in Kaki Bukit – Ubi – Paya Lebar – Eunos and Kallang – Geylang – Bendemeer clusters improved by 2.6% and 1.3% q-o-q respectively.** This cluster is generally more resilient due to their status as an established industrial hub with complementing amenities such food centres. It is also supported by the reduced disamenities like improved traffic conditions for industrialists in the area in view of the near completion of stage-three Downtown Line by 2017 which covers stations such as Bendemeer, Ubi and Kaki Bukit.
- **Business Park rents moderated downwards by 4.1% q-o-q** to \$4.22 psf pm in Q3 2016 on the back of the challenging business climate with tenants exercising greater caution in rental expectations. Nonetheless, business park space equipped with flexible layout, ready-amenities, good connectivity, and clustering effect with spill-over benefits are still well-occupied.

Relocation of larger oil and gas services companies will impact smaller supporting companies in the Pioneer-Tuas industrial cluster

- **Smaller companies offering supporting services in the oil and gas industry and ecosystem are expected to face stronger headwinds** in the coming two to three quarters, as oil prices continue to fall and with large foreign oil and gas services companies McDermott and Subsea 7 relocating most of their operations out of Singapore to Kuala Lumpur, Malaysia. The companies had made the decisions earlier this year, with McDermott citing proximity to regional clients as the motivation for the move, while Subsea 7 is purported to have decided so for cost reasons.
- **A next wave of consolidation is expected among these smaller businesses**, and if so this will lead to further weakness in the demand for space in the Pioneer-Tuas industrial cluster. In particular, vacancy of spaces of 1,500 sq ft or less, which meet the needs of such smaller businesses, is expected to rise.

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)
	Q2 2016	Q3 2016	
Kaki Bukit - Ubi - Paya Lebar - Eunos	\$2.21	\$2.26	2.6%
Macpherson - Tai Seng - Defu	\$1.88	\$1.84	-2.1%
Kallang - Geylang - Bendemeer	\$3.02	\$3.06	1.3%
Bukit Merah - Alexandra - Jalan Kilang - Pasir Panjang	\$2.93	\$2.84	-3.3%
Serangoon - Ang Mo Kio - Lorong Chuan - Toa Payoh - Pemandu	\$1.90	\$1.86	-2.0%
Clementi - Toh Tuck - Bukit Batok	\$1.59	\$1.55	-2.7%
Pioneer - Tuas	\$1.79	\$1.62	-9.6%
Woodlands - Sembawang - Admiralty - Yishun	\$1.38	\$1.37	-0.9%
Average	\$2.11	\$2.08	-1.2%
Business Park Space (Island-wide)	\$4.40	\$4.22	-4.1%

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

Average price of upper-floor strata-titled factory units increased in Q3 2016 despite muted demand

- **There were 84 transaction caveats of upper-floor strata-titled factory units in the first two months of Q3 2016** (Exhibit 2), constituting only 37.8% of the 222 caveats lodged in the whole of Q2 2016.
- **There were only two new sale transactions noted in the first two months of Q3 2016** in view of the limited new project launches. One of the transacted units was in Win5 Yishun and the other in E9 Premium, both of which are developments with lease tenures of 30 years.
- **Resale transaction volumes of factory developments with 30-year leasehold and freehold tenures remained firm, while that of 60-year leasehold developments weakened.** This dragged the resale market, with only 82 transactions caveats lodged in the first two months of Q3 2016 – about 45.3% of the 181 caveats lodged in the whole of the preceding quarter.
- **Average island-wide price is higher for the first two months of Q3 2016 compared to the whole of Q2 2016**, attributed to the resilient average price of 60-year and freehold resale transactions (Exhibit 3).

Average prices of upper-floor strata-titled warehouse units fell in tandem with softening demand

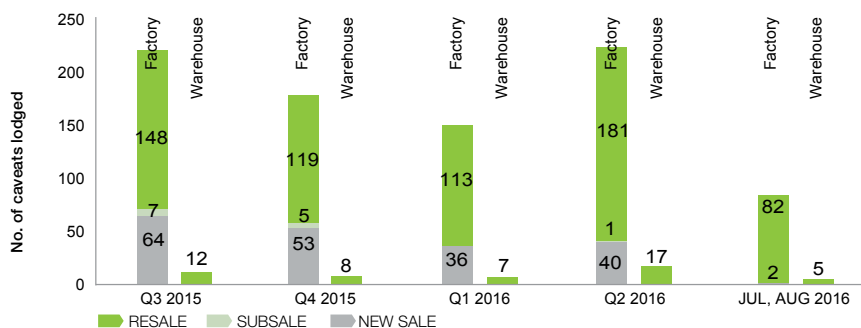
- **There were 5 caveats of upper-floor strata-titled warehouse units lodged in the first two months of Q3 2016** (Exhibit 2) – about 29.4% of the 17 caveats lodged in the whole of the preceding quarter.
- **Freehold assets, particularly in the Central Region, remained highly sought after**, evident in the quarter-on-quarter improvement of transaction prices over the preceding two quarters (Exhibit 3), notwithstanding the lower average island-wide price for warehouse units.

Market Outlook

- Amid the challenging business environment with tepid global trade and economic growth, industrialists continue to undertake bold consolidation and relocation strategies. This could result in continued weakness in demand for industrial space in the short- to mid-term.
- With softened demand and a strong pipeline supply of industrial space in the market, industrial rents are expected to be weighed down further. Freehold industrial units could be an exception, as demand and rents are likely to remain resilient given the limited supply.
- Good specification quality assets with lease tenure of 60 years and above, which are limited in supply, also remain more highly sought after by industrialists as long-term investment.

EXHIBIT 2

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

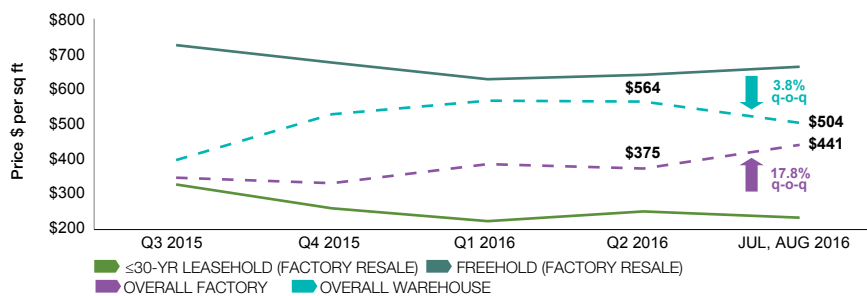


Source: REALIS (as at 15 September 2016), Knight Frank Research

*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, as at August 2016



Source: REALIS (as at 15 September 2016), Knight Frank Research

Island-wide Forecast by property types for Q4 2016

Average rents
-6.0% to -8.0% y-o-y

Average price for leasehold factory and warehouse units
-4.5% to -6.5% y-o-y

Average price for freehold factory and warehouse units
-0.5% to -2.0% y-o-y

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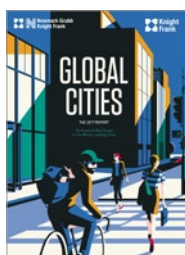
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