

# SINGAPORE INDUSTRIAL

The moderation of industrial sector performance led to a muted showing of the industrial property market and 2014 concluded with low transaction volumes and limited price growths for factory and warehouse segments. Asking rentals at key industrial clusters fell by an average 1.0 per cent quarter-on-quarter (q-o-q) in 4Q 2014.

With the bulk of upcoming supply coming on stream in 2015 coupled with cautious sentiment in the manufacturing sector, we expect downward pressure in asking rentals and prices by 3 to 5 per cent decline and 5 per cent contraction respectively in the first half of 2015.



“Revised usage guidelines from URA for E-business and media uses within the industrial sector will offer more property choices for these companies.”

**LIM KIEN KIM**  
Executive Director & Head, Industrial

## Moderation in manufacturing activities in last quarter 2014

According to the Ministry of Trade and Industry (MTI), Singapore’s economy grew 2.1 per cent year-on-year (y-o-y) in 4Q 2014, reflecting a moderation in growth compared with 2.8 per cent expansion in the preceding quarter. The economy grew 2.9 per cent for the whole of 2014, a slower pace as compared to 2013.

Singapore’s Index of Industrial Production saw an overall decline of 1.3 per cent y-o-y in 4Q 2014, after six consecutive quarters of growth. Biomedical manufacturing and precision clusters grew by 6.3 per cent and 5.0 per cent in 4Q 2014, while the rest of the clusters experienced declines in the same quarter. For the whole of 2014, the manufacturing sector saw 2.6 per cent growth which was mainly contributed by biomedical manufacturing and chemicals clusters.

The Singapore Purchasing Managers’ Index (SPMI) recorded a dip of 4.2 per cent from 51.8 in November 2014 to 49.6 in December 2014, indicating a contraction in the manufacturing sector after three consecutive months of expansion. This was attributed to a decline in new orders, a slower growth in new export orders as well as a further contraction in inventory for the second consecutive month. Overall, contraction readings were also recorded in production output, imports, input prices and employment.

## Continued Fall in Transaction volume for strata-titled factory in 4Q 2014

### Lowest transaction volume recorded since 1Q 2009

Total transaction volume of strata-titled factories decreased by 20.8 per cent quarter-on-quarter (q-o-q) to 205 units in 4Q 2014, the lowest sales performance on a quarterly basis for past 5 years. Overall, the year concluded with a total of 992 strata-titled factory transactions, recording yet another year of low transaction volume with a 46.9 per cent y-o-y decline.

The transaction volume of factory units sold in 4Q 2014 are largely contributed by resale transactions (130 units), while new sale transactions were mainly from Ark@Gambas (sold 15 units), CT Hub 2 (sold 12 units) and Eco-Tech (sold 31 units). Sub sale factory transactions declined by 33.3 per cent q-o-q and 63.6 per cent y-o-y, registering the largest fall for the year of 2014. The impact of the anti-speculation measures implemented by the Government is evident from the sharp annual decline in sub sale transaction volume by 54.3 per cent from 219 units in the preceding year to a total of 100 sub sale units for the whole of 2014.

Despite the low transaction volume amid the onslaught of Total Debt Servicing Ratio (TDSR) ruling and Seller's Stamp Duty, more factory units with larger floor plates were sold in 4Q 2014. This trend suggests that most buyers are non-speculators i.e. industrial end-users sourcing for suitable spaces for their business needs or investors with mid-to-long-term investment horizon due to the larger investment quantum required with larger units.

In view of the uncertain economic outlook for 2015 and continuing tight labour supply, prospective buyers are probably evaluating their cost management plans in the relocation or expansion of their operations. Furthermore, with the upcoming supply of about 21.7 million sq ft of factory space in 2015, it is deduced that industrial end-users saw little urgency in making a quick decision in the last quarter of 2014.

### Market downward correction in warehouse transaction volume in 4Q 2014

Total transaction volume for strata-titled warehouse units experienced a decline whereby only 10 upper floor units were transacted in 4Q 2014, reflecting a decrease of 23.1 per cent from the preceding quarter. Total transaction volume for warehouse units fell by 45.1 per cent y-o-y, reflecting total sales of 62 units for the whole of 2014.

### Island-wide prices for strata-titled factories declined in 4Q 2014

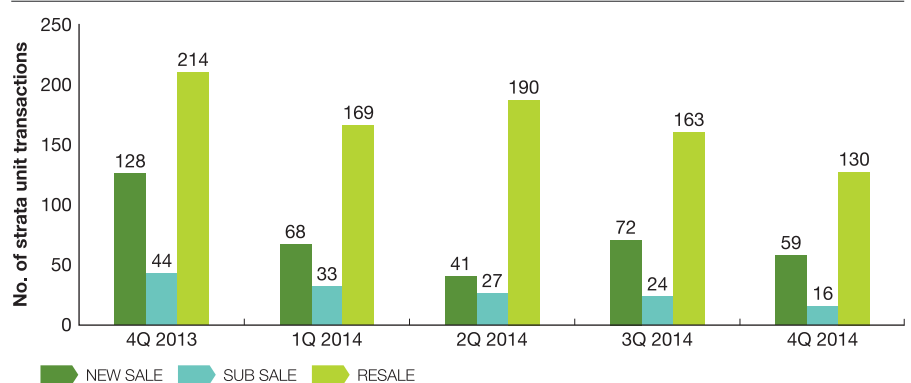
Island-wide average price for strata-titled factory spaces located on the upper floors averaged \$425 per sq ft in 4Q 2014, a 6.7 per cent q-o-q decline and 0.1 per cent y-o-y increase.

The island-wide average price for resale strata-titled factory spaces experienced a marginal increase of 3.1 per cent q-o-q to \$459 per sq ft, while island-wide average prices for new sale and sub sale segments saw declines of 26.3 per cent and 5.2 per cent to \$341 per sq ft and \$524 per sq ft from the preceding quarter, respectively.

Average price for new sale factory units in the North Region increased by 4.6 per cent q-o-q, due to the new sale transactions from Ark@Gambas, whereby the average price for the development picked up by 9.1 per cent to \$430 per sq ft in 4Q2014.

EXHIBIT 1

#### Sales Volume of Strata-titled Factory Units\* as of 4Q 2014

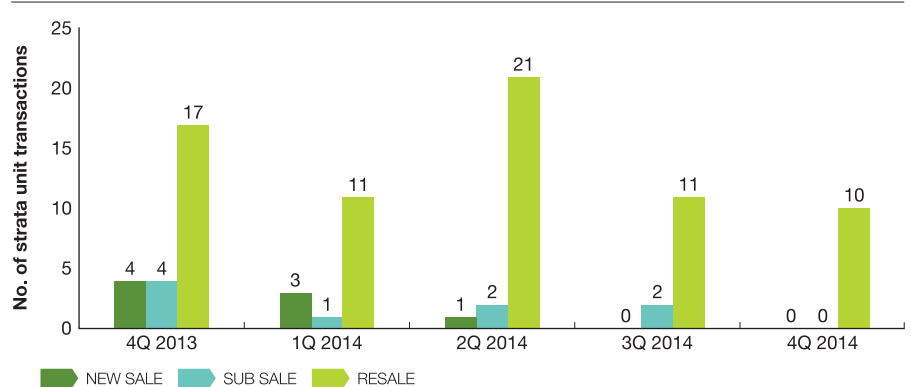


Source: REALIS (as at 23 Jan 2015), Knight Frank Research

\*Transactions are only based on units on upper floors.

EXHIBIT 2

#### Sales Volume of Strata-titled Warehouse Units\* as of 4Q 2014

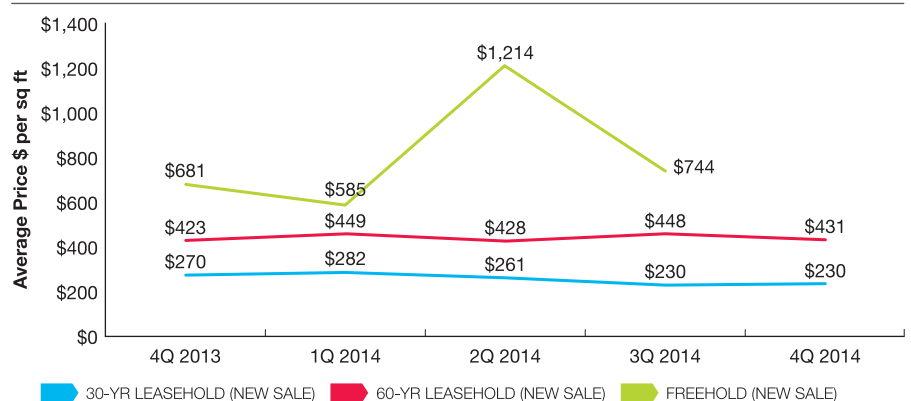


Source: REALIS (as at 23 Jan 2015), Knight Frank Research

\*Transactions are only based on units on upper floors.

EXHIBIT 3

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



Source: REALIS (as at 23 Jan 2015), Knight Frank Research

\*Transactions are only based on units on upper floors.  
No transactions were recorded for new sale freehold units.

New units in Eco-Tech@Sunview were trading at an average price of \$230 per sq ft in 4Q 2014, a marginal q-o-q increase of 1.3 per cent.

Despite price improvements for new sale units in both North and West Regions, Central Region suffered a decline of 12.4 per cent q-o-q. Fewer new units at CT Hub 2 were sold in 4Q 2014 and transacted at a lower average price of \$652 per sq ft, a 13.6 per cent decline to \$755 per sq ft from 3Q 2014.

The increase in island-wide resale unit average prices was driven upwards predominantly by transactions in the East and West Regions. Average price in the East region grew by 45.6 per cent q-o-q to reach \$465 per sq ft for 4Q 2014, while the average price for resale units in the West Region rose by 14.8 per cent q-o-q.

## Fall in 4Q 2014 prices for strata-titled warehouse units

Island-wide average price for all strata-titled warehouse transactions is at \$425 per sq ft in 4Q 2014, representing a decline of 23 per cent q-o-q. All 13 warehouse units sold in the quarter were resale units, with 7 units in the Central Region that was sold at an average price of \$574 per sq ft.

## Continued moderation in asking rents at key industrial clusters

Asking rents for conventional industrial space averaged \$2.57 per sq ft in 4Q 2014, reflecting a 1 per cent decrease q-o-q.

The highest contraction in asking rental stemmed from the micro cluster of Serangoon – Ang Mo Kio - Lorong Chuan – Toa Payoh, at 10.7 per cent q-o-q decline to \$2.33 per sq ft. This was largely due to an increase in supply of factory space as well as the reduction in demand within the cluster, resulting in a downward pressure of asking rentals.

Relocation of companies within the micro clusters of Kaki Bukit – Ubi – Paya Lebar – Eunos and MacPherson – Tai Seng – Defu led to higher vacancies within the clusters and the decline in asking rentals by 6.7 per cent and 7.8 per cent, respectively for 4Q 2014.

Warehouses in the West Region saw good take-up rates for spaces from 15,000 sq ft to 20,000 sq ft, while vacancy is higher for larger floor plates of 50,000 sq ft and above. Life Technologies took up approximately 62,000 sq ft of warehouse space at 10 Toh Guan Road.

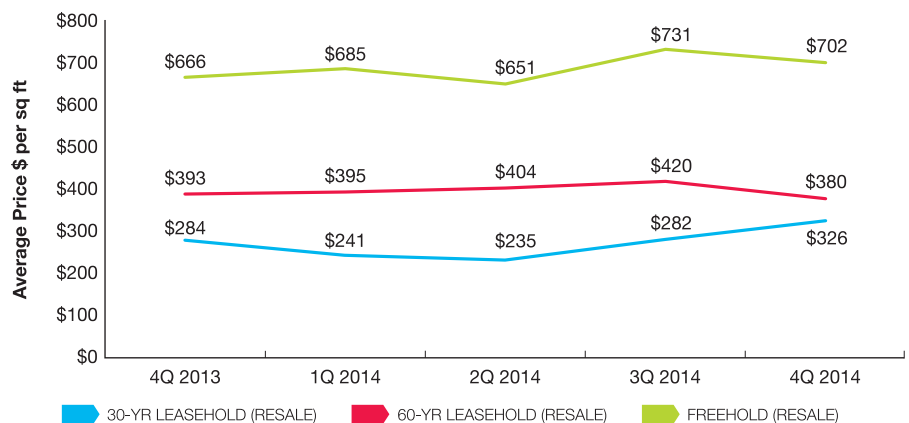
The marginal increase of 0.9 per cent in asking rents for Business Park developments was mainly contributed by healthy take-up rates in one-north. A\*Star have pre-committed to fully occupy the upcoming completed developments of Kinesis and Synthesis as well as a few floors in Innovis. Innovis is envisaged to have 40 per cent pre-committed leases as of 4Q 2014.

## Large tranches of upcoming supply slated for completion in next 2 years

Factory space with a combined Gross Floor Area (GFA) of approximately 5.85 million sq ft was completed in 4Q 2014, reflecting a substantial increase in supply by 52.5 per cent from the previous quarter. Notable developments which obtained TOP include Galaxis (0.6 million sq ft), Ark@Gambas (0.6 million sq ft), Link@AMK (0.6 million sq ft), JTC's Fusionopolis Two @ one-north (0.9 million sq ft) and JTC LaunchPad (0.2 million sq ft).

EXHIBIT 4

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

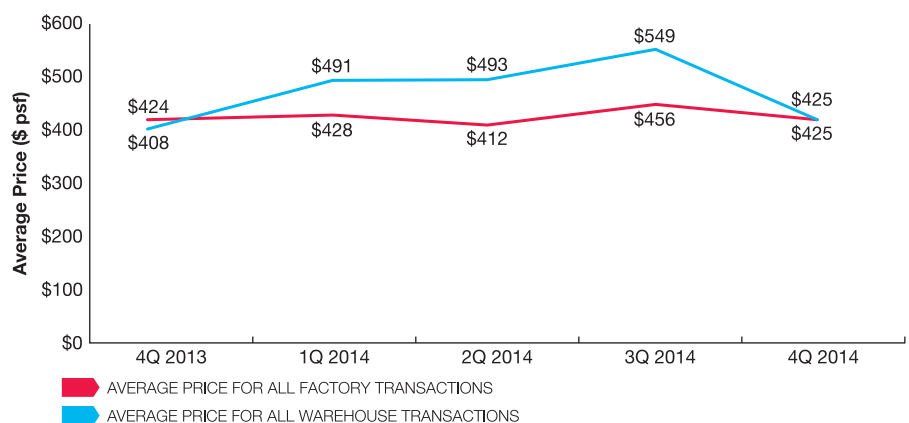


Source: REALIS (as at 23 Jan 2015), Knight Frank Research

\*Transactions are only based on units on upper floors.

EXHIBIT 5

### Average Prices\* of Strata-titled Warehouse and Factory Units



Source: REALIS (as at 23 Jan 2015), Knight Frank Research

\*Transactions are only based on units on upper floors.

Total warehouse space of about 2.5 million sq ft of space was completed in 4Q 2014. Big Box located in Jurong East contributed to 1 million sq ft of warehouse space.

Overall, an estimated total supply of around 64.1 million sq ft industrial space will be made available by 2019. Out of the 49.2 million sq ft factory space slated for completion by 2019, 44.1 per cent or 21.7 million sq ft of factory space is set to be ready by end 2015. The second largest tranche of upcoming supply (24 million sq ft) of industrial space is expected to be ready in 2016.

Notable industrial developments that are set to complete by 2016 include Mapletree Business City Phase 2 and Carros Centre, a freehold industrial development located at Jalan Lam Huat with a combined supply of close to 2.4 million sq ft.

## Market Outlook

### Cautious sentiments to continue for industrial sector in first half of 2015

In view of Singapore's manufacturing sector showing minor signs of contraction in the last 2 months of 2014 and with majority of the manufacturers expecting business sentiments to remain marginally stable in 1H 2015, we expect the prevailing cautious sentiment for industrial property market to continue for the first half of 2015.

Given the expected increase in the completion of industrial spaces for this year and with the revised subletting rules, downward pressure on overall industrial rents is envisaged to persist for at least 2 quarters. Tenants will be presented with more options when sourcing for suitable premises. We anticipate that the overall average industrial rent is likely to trend moderately downwards by about 3 to 5 per cent in 1H 2015, followed by a potential rebound of about 5 per cent in the 2H 2015, assuming general market sentiment improves with increasing industrial activities. Set in this context of lower rents for the first six months this year, more tenants are likely to relocate to buildings located at more accessible locations, or newer buildings with more efficient layouts to suit their needs.

Despite a sharp decline in the total strata-titled industrial transactions in 2014 by 51 per cent from last year, we believe that the strata market could experience an uptick in transactional activity especially in the resale market going forward, due to the fewer new launches expected this year.

We envisage that the average price of strata-titled industrial property could decline by about 5 per cent in 1H 2015 before stabilising in 2H 2015 when there could be more market activities to encourage upward movement in prices.

#### EXHIBIT 6

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

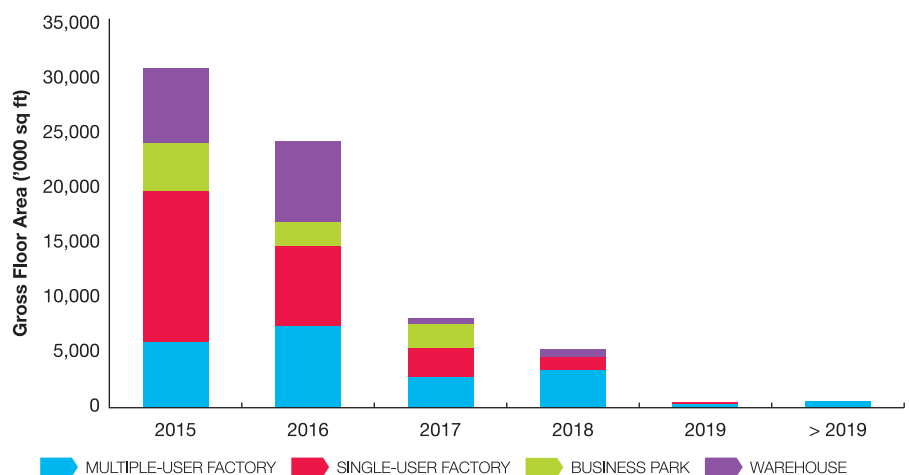
Industrial Cluster	Monthly Gross Rentals (Upper Floor, S\$ per sq ft)		% Change (q-o-q)
	3Q 2014	4Q 2014	
Kaki Bukit - Ubi - Paya Lebar - Eunos	\$2.84	\$2.65	-6.7%
Macpherson - Tai Seng - Defu	\$2.17	\$2.00	-7.8%
Kallang / Geylang / Bendemeer	\$3.33	\$3.60	8.1%
Bukit Merah - Alexandra - Jalan Kilang - Pasir Panjang	\$3.59	\$3.65	1.7%
Serangoon / Ang Mo Kio / Lorong Chuang / Toa Payoh / Pemimpin	\$2.61	\$2.33	-10.7%
Clementi - Toh Tuck - Bukit Batok	\$2.14	\$2.18	1.9%
Woodlands - Sembawang - Admiralty - Yishun	\$1.46	\$1.55	6.2%
<b>Average</b>	<b>\$2.59</b>	<b>\$2.57</b>	<b>-1.0%</b>
Business Park Space (Island-wide)	\$4.54	\$4.58	0.9%

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 4Q 2014



Source: JTC, Knight Frank Research

## New usage guidelines from URA impact on rental gaps between Hi-Specs space and Business Park space

URA has revised the usage guidelines for E-business and media uses in industrial developments whereby businesses that provide telecommunications, infrastructure and/or develop software as well as core media activities are allowed in the industrial developments. On the other hand, businesses that were previously classified as Type 2 e-business and non-core media activities will be regarded as commercial use and should be located in commercial properties. Call Centres are only allowed in Business Park and Industrial Business 1 developments.

With this revised guidelines, there are more leasing options for industrial space users, especially users from the ICT software design and development companies, as they can source for available spaces in Business 1 developments. They may consider moving out of Business Parks to more affordable locations to lower their relocation costs. In light of the revised guidelines, we expect rental gaps to narrow between Hi-Specs spaces and Business Park spaces.

During the same period, URA has also revised the guidelines for supporting uses in industrial developments. This will provide a more conducive environment for the tenants given the relaxation in guidelines that allows selected commercial uses and childcare centres to be located within the industrial estates.

**FOR INDUSTRIAL SALES AND  
LEASING INFORMATION,  
PLEASE CONTACT:**

**Lim Kien Kim**

Executive Director & Head

Industrial

6228 6894

lim.kienkim@sg.knightfrank.com

**FOR FURTHER INFORMATION,  
PLEASE CONTACT:**

**Alice Tan**

Director and Head

Consultancy & Research

6228 6833

alice.tan@sg.knightfrank.com

**Pearl Lok**

Assistant Manager

Consultancy & Research

6228 6857

pearl.lok@sg.knightfrank.com

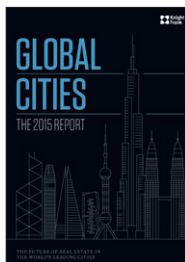
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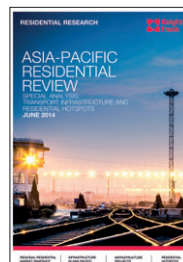
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