RESEARCH

INDUSTRIAL

INDUSTRIAL MARKET SNAPSHOT

Upcoming New Supply (2018 - 2021):
33.1 million sq ft
(6.4% of total current stock[1])

Purchasing Managers' Index (Q4 2017)[2]
52.8
▲ 2.3% increase q-o-q

Average Industrial Rents (Island-wide)[3]:
S$1.97 psf pm
▼ 0.5% decrease q-o-q

TAN BOON LEONG
Executive Director & Head, Industrial

"We will continue to see industrial rents moderating in 2018 as the market demand adjust to the current available industrial stock and the waning new supply beyond this year."

[1] Source: URA, data as of Q4 2017. [2] Source: SIPMM. PMI shown is the quarterly average of the three months' PMI in that quarter. [3] Source: Knight Frank Research. 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.

MOVE TOWARDS EFFICIENCY' BY INDUSTRIALISTS AS THE QUEST FOR TECHNOLOGY AND FOCUS ON HIGHER VALUE-ADDED MANUFACTURING CONTINUES

The manufacturing sector continued to be the key engine of economic growth in fourth quarter of 2017, particularly the electronics and precision engineering clusters. Average rents of factory spaces slipped 0.5% q-o-q in Q4 2017 as occupancy rates continue to fall. Build-to-suit development trend is poised to continue in 2018 as popularity of such facilities rise.

Manufacturing sector finished 2017 with stellar results

- **Singapore's 2017 Gross Domestic Product (GDP) grew 3.6% on a y-o-y basis in 2017.** The manufacturing sector expanded by 4.8% y-o-y, a slowdown from the 19.1% growth in the third quarter. Growth was driven primarily by the electronics and precision engineering clusters, which continued to grow on the back of healthy global demand for semiconductors, semiconductor equipment, as well as optical products. The transportation & storage sector posted growth of 5.3% y-o-y, similar to the 5.2% growth in the third quarter. Growth was largely driven by the water transport and air transport segments, which saw improvements in sea cargo and air passengers handled respectively.
- **Singapore's exports rose by 3.1% y-o-y in December 2017** to continue its growth streak since its previous high of 20.5% y-o-y in October 2017. The increase was attributed to better export performance from Personal Computers and Telecommunications Equipment, which reported a growth of 10.4% and 12.1% y-o-y respectively.

- **The Singapore Purchasing Managers' Index (PMI)[1] expanded for the 16th consecutive month in December 2017 to 52.8, a slight dip of 0.1 from its high in November 2017.** The PMI was above 52.0 in Q4 2017, with a faster rate of expansion in all key indicators. The local manufacturing sector saw a larger number of new orders coming in at a slower rate of expansion for stocks of finished goods.
- **Number of employment in the manufacturing sector fell by 6,000 in Q3 2017 compared to the previous quarter and lower by 2,400 headcounts from Q3 2016.** While the manufacturing sector output continues to report outstanding performance, the trend of technology adoption and labour cutbacks to improve efficiency is apparent from lower employment.
- **Government reduced industrial land supply in H1 2018.** The Industrial Government Land Sales (IGLS) programme presented a total of six sites on the Confirmed List and seven sites on the Reserve List, with a total site area of 12.6 hectares ('ha') for H1 2018. This is a slight dip from the 13.9 ha of site area for H2 2017. Each land plot ranges from 0.4 ha to 2.4 ha, smaller than the average land sizes in previous IGLS releases. All the sites on the Confirmed List are zoned "Business 2" for heavier industrial use, with half of them located in Tuas South.

Push towards higher adoption of technology to promote higher-value added manufacturing more evident in Q4 2017

- **After a soft market in 2017, the construction sector is expected to see a boost in demand, buoyed by the public sector which would account for $16-19 billion of construction contracts in 2018.** 59 design-for-manufacture and assembly (DfMA) construction projects could be tendered out in 2018, compared to the 40 current construction projects that use the DfMA technology. The government will continue to encourage the construction sector to adopt such technology by making it a requirement for government land sales sites where suitable, in a bid to boost productivity and reduce labour costs. The Construction Industry Transformation Map (ITM) also targets to have 80,000 personnel trained in DfMA, Integrated Digital Delivery (IDD) and green building capabilities through a Built Environment SkillsFuture Tripartite (BEST) Taskforce to lead in training new graduates in response to industry feedback.
- **The Aerospace ITM primarily seeks to achieve a total manufacturing value-add of $4 billion and introduce 1,000 new jobs by 2020.** New market segments such as unmanned aircraft systems (UAS) are also emerging. These industry trends are expected to transform existing aerospace jobs, and create new skilled job roles such as robotics engineers, data scientists and additive manufacturing (3D printing) design engineers.
- **Possible Goods and Services Tax (GST) rate hike could affect industrialists.** A projected GST rate hike could be announced by the Government for Budget 2018. While the increase is widely expected to be staggered over two years to help cushion the impact, industrialists are bracing for the eventuality that the hike would nonetheless drive up rents and operating costs. A viable substitute to the Productivity and Innovation Credit to promote innovation would need to be introduced to continually advance Singapore's industrial transformation journey.

Overall island-wide rents decreased marginally in Q4 2017

- **Based on Knight Frank's basket of industrial properties, overall island-wide rents for conventional industrial space declined by 0.5% q-o-q** to $1.97 per sq ft per month (psf pm) in Q4 2017 (Exhibit 1), mainly due to the decline in rentals in the Macpherson – Tai Seng – Defu cluster, Woodlands – Sembawang – Admiralty – Yishun cluster and Bukit Merah – Alexandra – Jalan Kilang – Pasir Panjang cluster.
- **The Clementi – Toh Tuck – Bukit Batok cluster reported the strongest appreciation in rents**, with a 1.4% q-o-q increase to $1.42 psf pm in Q4 2017.
- **Largest decline in rents was seen in the Macpherson – Tai Seng – Defu cluster during Q4 2017**, with a decline of 1.8% q-o-q to $1.68 psf pm in Q4 2017 from $1.71 psf pm in Q3 2017, largely due to lower rental transactions reported from factory buildings like Trivex.
- **Business Park rents remained unchanged for three quarters** at $4.14 psf pm.

[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.

Strata-titled factory and warehouse unit transactions declined in Q4 2017

- **Demand for total strata-titled factory units waned markedly** in Q4 2017 (149 caveats) from Q3 2017 (225 caveats). The decline is also prominent on a y-o-y basis at -15.3% from 176 caveats in Q4 2016. No new sale transactions for factories were lodged in Q3 2017 as lesser strata-titled industrial projects were launched. Demand for leasehold factory units constituted the largest proportion, accounting for 80.5% (120 caveats) of the 149 strata-titled factory caveats lodged in Q4 2017.
- **Total strata-titled factory resale transactions fell by 33.5% q-o-q** to 149 resale caveats in Q4 2017, and a 1.4% y-o-y increase from 147 resale caveats in Q4 2016. 63.8% of the resale caveats lodged were properties with a leasehold period of 31 to 60 years.
- **Demand for strata-titled warehouse units saw a decline in Q4 2017** (9 caveats) compared to previous quarter (14 caveats), with majority of the strata-titled warehouse caveats being freehold. On a y-o-y basis however, the number of caveats reported a 12.5% increase from 8 caveats in Q4 2016.

Volume of rental transactions decreased in Q4 2017

- **Rental transactions for single-user factory units reported a 10.2% q-o-q decrease** island-wide in Q4 2017 to 97 records, from 108 in Q3 2017. The West Region reported the biggest decline of 29.0% q-o-q with 9 less transactions in Q4 2017 compared to the previous quarter.
- **Rental transactions for multiple-user factory units slipped marginally** from 1,892 records in Q3 2017 to 1,890 in Q4 2017, with the Central Region registering the largest q-o-q fall at -7.2% in the number of rental transactions.
- **While total warehouse unit rental transactions declined** from 358 records in Q3 2017 to 344 records in Q4 2017, it reported a significant 36.0% increase on a y-o-y basis, signalling a rising interest in the logistics and warehousing sector.

EXHIBIT 1

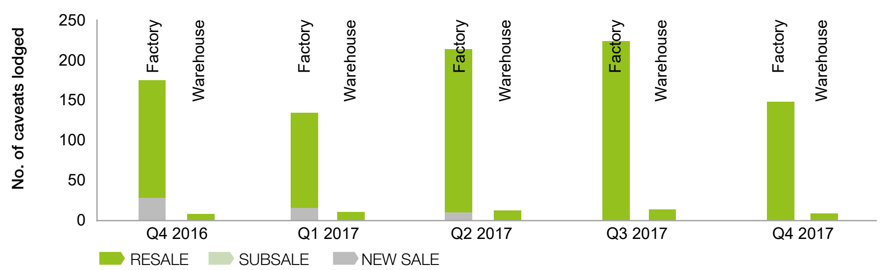
Average Monthly Gross Rentals for Conventional Industrial Space by Cluster

Industrial Cluster	Monthly Gross Rentals (Upper Floor, S$ psf) Q3 2017	Q4 2017	% Change (q-o-q)
Kaki Bukit - Ubi - Paya Lebar – Eunos	$2.17	$2.18	0.5%
Macpherson - Tai Seng – Defu	$1.71	$1.68	-1.8%
Kallang - Geylang – Bendemeer	$2.97	$2.97	No change
Bukit Merah - Alexandra - Jalan Kilang - Pasir Panjang	$2.83	$2.79	-1.4%
Serangoon - Ang Mo Kio - Lorong Chuan -Toa Payoh - Pemimpin	$1.83	$1.82	-0.5%
Clementi - Toh Tuck - Bukit Batok	$1.40	$1.42	1.4%
Pioneer - Tuas	$1.61	$1.62	0.6%
Woodlands - Sembawang - Admiralty- Yishun	$1.33	$1.31	-1.5%
Average	$1.98	$1.97	-0.5%
Business Park Space (Island-wide)	$4.14	$4.14	No change

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.

EXHIBIT 2

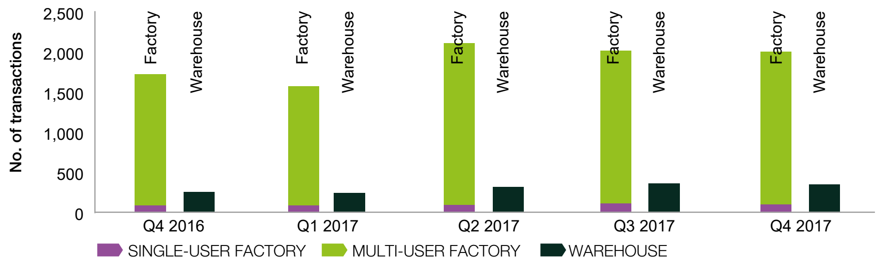
Number of Caveats Lodged for Strata-titled Factory and Warehouse Units*



Source: REALIS (as at 18 January 2018), 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

Rental Transaction Volume of Factory and Warehouse Units



Source: REALIS (as at 18 January 2018), Knight Frank Research

Market Outlook

- The buoyant manufacturing outlook will continue to support demand for high-specification industrial spaces in the first two to three quarters of 2018.
- Following the 'en bloc fever' of mainly residential developments in 2017, construction demand is expected to increase with the construction sector possibly sourcing out more industrial production and warehousing spaces to meet the growing demand from upcoming new residential projects.
- New supply of industrial spaces between 2018 and 2020 is estimated at 31.3 million sq ft, compared to the 10.0 million sq ft of industrial spaces that came on stream in Q4 2017 alone. As new supply in the next few years wane, the occupancy rates of various industrial spaces are set to recover, albeit on a slow and steady trajectory as industrial space demand catches up.
- With shorter industrial leases from land parcels being meted out by JTC, some industrialists may consider recycling their land parcels with longer leases to sustain financial viability of their businesses.
- Besides embracing innovation-led productivity, industrialists should transform their business model and operations through leveraging digital solutions, with aid from government initiatives like Local Enterprise and Association Development (LEAD) Programme and Technology Adoption Programme (TAP). Those that fail to embrace the digital transformation strategy may risk being disrupted or made redundant.

EXHIBIT 4

Island-wide rental and price forecasts for 2018, by property types

-3.0% to 1.0% y-o-y	-2.0% to -5.0% y-o-y	1.0% to 3.0% y-o-y
Average rents	Average price for **leasehold** factory and warehouse units	Average price for **freehold** factory and warehouse units

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:

Alice Tan
Director and Head
Consultancy & Research
6228 6833
alice.tan@sg.knightfrank.com

Wong Shanting
Assistant Manager
Research
6228 7339
shanting.wong@sg.knightfrank.com

Caleb Hong
Analyst
Research
6228 7317
caleb.hong@sg.knightfrank.com