

SINGAPORE RESEARCH INDUSTRIAL



Q4 2018 INDUSTRIAL MARKET SNAPSHOT

Upcoming New Supply (2019 - 2023):
50.2 million sq ft Gross Floor Area

Average Industrial Rents (Island-wide):
S\$2.00 psf pm

- No Change q-o-q
- ▲ 1.5% increase y-o-y

Average Business Park Rents (Island-wide):
S\$4.30 psf pm

- No Change y-o-y
- ▲ 3.9% increase q-o-q

RENTS OF INDUSTRIAL SPACES IN 2019 EXPECTED TO REMAIN UNCHANGED



TAN BOON LEONG
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“Given the uncertain external environment, more manufacturers are reviewing their space needs and space use strategy. We expect demand for high-specification spaces to be stronger.”

The Singapore’s electronic sector showed signs of slowing, but firms in transport engineering and medical technology are optimistic of prospects in Q1 2019.

- **The Singapore economy grew by 2.2% year-on-year (y-o-y) in Q4 2018**, according to advance estimated from Ministry of Trade and Industry. The Gross Domestic Product (GDP) of manufacturing sector grew by 5.5 per cent on a y-o-y basis, faster than the 3.7 per cent growth in Q3. Growth of manufacturing sector was largely attributed to the expansions in the biomedical manufacturing and electronic clusters, which more than offset the output in the precision decline in the precision engineering cluster.
- **Most companies in the manufacturing sector expects business situation for October 2018 to March 2019 to be the same as a quarter before**, according to survey of business expectations of manufacturing sector by Economic Development Board Singapore. The transport engineering cluster is most optimistic about business conditions. The marine & offshore engineering segment is more optimistic because the oil & gas-field equipment more orders on the back of firmer oil prices. Medical technology segment expects export orders to be strong in next 6 months. In contrast, the machinery & systems segment in the precision engineering cluster and the infocomms & consumer electronics segment from the electronic cluster expect weaker orders due to global trade tension.

² 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.

- **Non-oil domestic exports (NODX) declined by 8.5% y-o-y in December after 2.8% decline in November.** NODX to the majority of the top markets declined in December 2018, except US and China. On a y-o-y basis, electronic NODX declined by 11.2% in December 2018 after 4.3% growth in November. PCs, disk media products and diodes & transistors contracted by 20.5%, 28.5% and 34.4% respectively. Domestic exports of non-electronic products declined 7.4% y-o-y. The decline signals the end of export frontloading due to trade tensions and a fading technology boom.
- **Singapore Purchasing Managers' Index (PMI)¹ slipped for the fourth month in December 2018.** The Singapore PMI in Dec record a slower expansion of 51.1, lowest since July 2017. The electronics sector eased by 0.1 point to 49.8, lowest since July 2016.

Trends

- **Slower economic growth of US and China amid uncertain external environment put downward pressure on demand for industrial space.** The partial shutdown of the US government clouds the outlook for spending and domestic consumption and economy, as it hurt consumer and business confidence. Separately, China's manufacturing sector contracted for first time in more than two years in December amid China's ongoing trade dispute with US.
- **Singapore remain an attractive location for companies to set up new plants to meet growing demand in South East Asia.** A case in point is Finnish energy giant Neste, which will invest 1.4 billion euros to increase its biofuel production capacity in Singapore by up to 1.3 million tonnes per annum. Neste announced its decision to build its new plant in Singapore instead of United States in December 2017.
- **Demand from data centres expected to grow, with more technology companies setting up in Singapore.** Most cost-conscious companies are moving from self-run data centres to co-location or cloud leasing, which enables them to cut costs. Singapore was also an ideal place to set up data centre given its infrastructure, stability and availability of talent. Besides Google and Facebook investing in data centres in Singapore, Equinix also plans to build a fourth data centre in Singapore at an initial cost of US\$85.3 million. According to a market study by Equinix, Singapore's interconnection bandwidth capacity is expected to more than quadruple by 2021.

The industrial property market has stayed largely stable in y-o-y and q-o-q 2018.

- **Average rents for island-wide industrial space stayed unchanged y-o-y** at S\$2.00 per square foot per month (psf pm) in Q4 2018, based on Knight Frank basket of industrial properties. The number of rental transactions of industrial space excluding business parks in 2018 went up to 10,467 transactions, more than 9,167 transactions in 2017. The value of rental transactions also went up to S\$74.8 million in 2018 from S\$57.1 million in 2017.
- **The warehouse segment recorded the largest increase in number of rental transactions 2018,** rising by 33% to 1,671 transactions. The value of the industrial space leased in 2018 also rose by 67% to S\$21.2 million. Notwithstanding, the number of rental transactions diminished in Q4 2018 by 6.5% q-o-q. This was in line with increasing occupancy rate of warehouse. As at Q3 2018, the occupancy rate for warehouse rose by 0.9 percentage-points to 89.4%.

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)	% Change (y-o-y)
	Q3 2018	Q4 2018		
Kaki Bukit - Ubi - Paya Lebar - Eunos	\$2.10	\$2.10	-	-3.7%
Macpherson - Tai Seng - Defu	\$1.60	\$1.60	-	4.3%
Kallang - Geylang - Bendemeer	\$3.20	\$3.20	-	5.8%
Bukit Merah - Alexandra - Jalan Kilang - Pasir Panjang	\$2.70	\$2.70	-	-3.3%
Serangoon - Ang Mo Kio - Lorong Chuan - Toa Payoh - Pempin	\$1.80	\$1.80	-	-0.8%
Clementi - Toh Tuck - Bukit Batok	\$1.60	\$1.60	-	12.5%
Pioneer - Tuas	\$1.60	\$1.65	3.1%	1.7%
Woodlands - Sembawang - Admiralty - Yishun	\$1.40	\$1.40	-	7.7%
Average	\$2.00	\$2.00	-	1.5%
Business Park Space (Island-wide)	\$4.30	\$4.30	-	3.9%

Source: Knight Frank Research

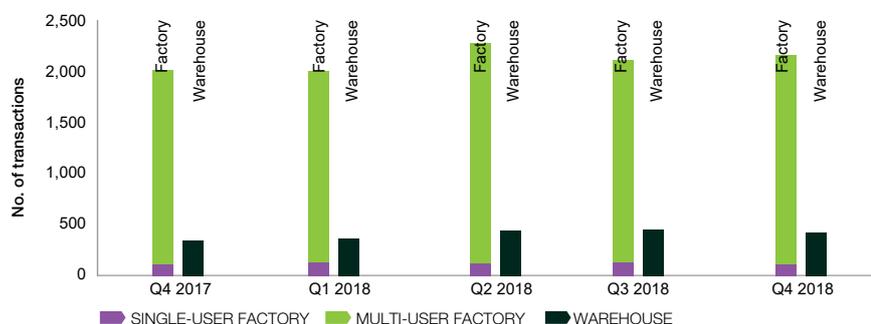
Note: Rentals are based on Knight Frank's basket of industrial properties, which are monitored every quarter.

* Range of rentals is estimated based on the average of minimum and maximum rentals derived.

** The percentage change may not add up during rounding differences.

EXHIBIT 2

Rental Transaction Volume of Factory and Warehouse Units



Source: J-SPACE (as at 18 Jan 2019), Knight Frank Research

Market Outlook

- The trade war between China and US may dissipate as there are signs that both sides may agree to a resolution. However, there still be changes to the situation. Separately, the maturing of the technology sector and slower electronic growth may dampen sentiments for the manufacturing sector, slowing demand for industrial space.
- As at Q3 2018, the new supply of industrial spaces coming on-stream from 2018 to 2022 is 4,669,000 sm. In 2019, it is anticipated that 1,279,000 sm will come on board, and the estimated single-user factory space completing amounted to 704,000 sm.
- The industrial market is expected to move on a two-tier level in 2019, with rents of purpose built high-specification industrial spaces increasing at a faster rate. Overall, we forecast industrial rents and occupancies to stay unchanged in 2019.

EXHIBIT 3

Island-wide rental and price forecasts, by property types

Forecast for end 2019

-2.0% to 1.0%

y-o-y

Average rents

Source: Knight Frank Research

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