Singapore Research

Industrial & Logistics

Knight Frank

Q1 2024 | knightfrank.com.sg/research

A quiet but steadfast industrial market in Q1 2024

"Sentiment in the manufacturing sector has turned a corner and this will in turn contribute to the continued resilience of industrial real estate."

NORISHIKIN KHALIK, DIRECTOR, OCCUPIER STRATEGY AND SOLUTIONS

2,948 LEASES

Number of Industrial Tenancies
6.5% ▼ Q-O-Q | 8.7% ▼ Y-O-Y

S$709.7 MILLION

Total Industrial Sales
1.0% ▲ Q-O-Q | 24.5% ▼ Y-O-Y

38.4 MILLION SF GFA

Upcoming Supply (2024 to 2028)

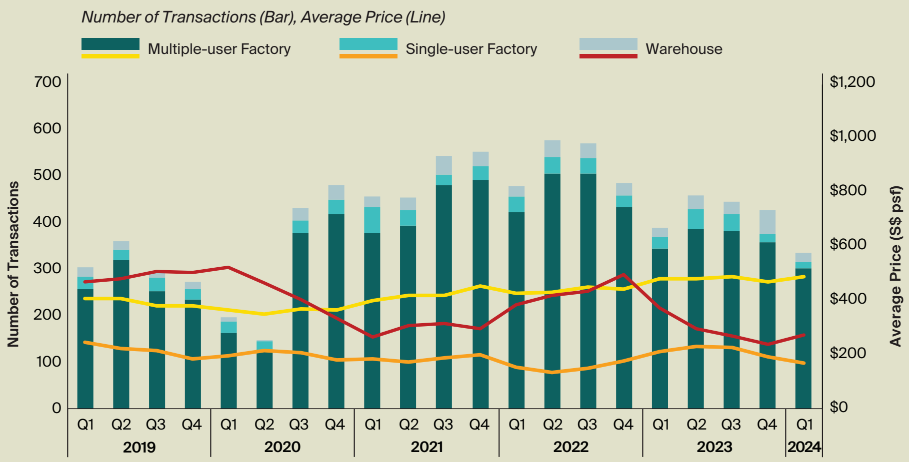
MARGINAL EXPANSION OF THE ECONOMY AND MANUFACTURING SECTOR

Advanced estimates by the Ministry of Trade and Industry (MTI) announced that Singapore's economy expanded by 2.7% y-o-y in Q1 2024, faster than the 2.2% y-o-y growth in Q4 2023. The manufacturing sector grew by 0.8% y-o-y in the first three months of the year, slower than the 1.4% y-o-y increase in the fourth quarter of 2023. GDP growth forecast for 2024 is projected at 1.0% to 3.0% for the whole of 2024.

In February 2024, Singapore's total manufacturing output was reported by the Economic Development Board (EDB) to have increased 3.8% y-o-y. Four out of the six manufacturing clusters recorded growth, with expansions of 27.4% in biomedical manufacturing, 19.6% in transport engineering, 11.2% in chemicals and 2.6% in electronics. The other two clusters, general manufacturing and precision engineering recorded declines of 3.4% and 19.9% respectively. Business expectations for the manufacturing sector were cautiously positive with all clusters expanding except for chemicals, as a net weighted balance of 10% of manufacturers anticipated overall improvement for the period between January and June 2024.

The overall Singapore Purchasing Manager's Index (PMI) recorded 50.7 in March, a marginal increase of 0.1 from 50.6 in February. The electronics PMI showed a larger increment of 0.4 to 50.8 in March from 50.4 in February with the recovering global semiconductor industry. With demand for artificial intelligence memory chips, the electronics sector is expected to be a key driver in 2024 that mitigates economic headwinds and sustains recovery in the manufacturing sector and exports for the rest of the year.

Exhibit 1: Industrial Sales Performance



Source: JTC J-Space, Knight Frank Research
Note: The average unit price is based on a four-quarter moving average of strata transactions.
*Q1 2024 data is based on transactions downloaded as at 12 April 2024.

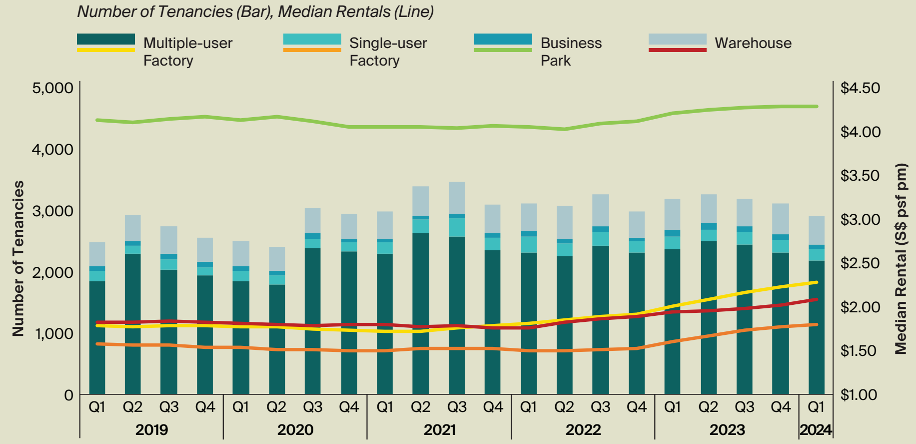
WANING PRICES AND RENTS OF INDUSTRIAL PROPERTIES

Sales activity slowed in the first quarter of 2024 with 337 caveats lodged, a decrease of 21.3% from the previous quarter when 428 caveats were lodged (Exhibit 1). However, industrial sales value was similar to the previous quarter at S$709.7 million, a 1.0% increase from the S$702.7 million in the previous quarter. Despite this, a few large industrial deals were successfully transacted during the quarter. For instance, the sale of a data centre named OneTen Paya Lebar to BDx Data Centres from Hwa Hong Corporation Group for S$140.0 million, the sale of a single-user factory located at Senoko Loop for S$53.2 million, and the sale of two industrial properties located at Commonwealth Drive situated within Tanglin Halt Industrial Estate for a total of S$50.6 million, all of which were transacted in February.

Notwithstanding the slowdown in sales, interest based on enquires from both end-users and investors remained healthy and could translate into more transactions, especially when interest rates are cut. End-users remain keen on shorter tenure facilities to mitigate their capital costs, while investors are predisposed towards assets with longer tenures.

In the first quarter of 2024, industrial leasing volume amounted to 2,948 transactions, showing a decline of 6.5% compared to the corresponding period in the previous quarter. However, the value of rental transactions was 9.5% higher at S$28.5 million, as demand for industrial properties remained intact, contributing to the increase in the total value of rental transactions. Islandwide unit rents of industrial properties generally increased in March, as all industrial property types, with the exception of single-user factories, recorded monthly growth.

Exhibit 2: Industrial Leasing Volume and Median Rentals



Source: JTC J-Space, Knight Frank Research
Note: The median rent is based on a four-quarter moving average.

MANUFACTURERS CONTINUED TO START OR EXPAND OPERATIONS IN SINGAPORE

Singapore received S$1.7 billion in fixed asset investment (FAI) in the last quarter of 2023, bringing the total for the whole of 2023 to S$12.7 billion. The flow of incoming manufacturing investments to Singapore trickled towards the end of the year declining 76.9% from Q3 2023 when S$7.4 billion in FAI was recorded. It is likely that the pause in investments in the near term is due to the shift in global tax changes with large multinational enterprises (MNEs) evaluating the incentives offered by other countries as Singapore introduces a minimum effective tax rate of 15% for MNEs from January 2025 to align with the second pillar of the Base Erosion and Profit Shifting initiative (BEPS) 2.0 – a global tax pact comprising more than 140 countries.

Nevertheless, with access to talent, political stability, and greater ease of entering Southeast Asian markets, global firms continued to exhibit interest to open new headquarters and factories in Singapore. For example, Japanese manufacturer Toppan Holdings reportedly invested S$450 million into building a semiconductor packaging materials plant located at Pesawat Drive in Jurong. The plant is expected to begin operations at the end of 2026. Additionally, Swiss pharmaceutical giant Novartis will be injecting S$342.3 million to expand its biopharmaceutical manufacturing plant here, with the enlarged plant also expected to be operational by early 2026. The stream of entry and expansion of international manufacturers into Singapore shows the potential and opportunities to establish a stable manufacturing location in Asia despite the economic headwinds, from components that can be shipped to other industrial cities around Asia, and where high-value-add products can be exported to a growing middle class in the region.

MARKET OUTLOOK

Although the industrial real estate sector was quiet in Q1 2024, the return to growth in the manufacturing sector will underpin its stability, a stability that is important to globally linked producers. Key industrial indicators such as prices, rents and occupancy levels are anticipated to remain relatively stable across the various industrial property types for the rest of the year.

Economic indicators of GDP, manufacturing output and PMI showed positive returns, signalling a more optimistic outlook for the remaining three quarters of 2024 despite challenges and global tensions. International firms continue to view Singapore to be a suitable place to enter and/or expand their operations due to a quality workforce and proximity to the Southeast Asian market.

Overall factory rental and price growth for 2024 is expected to grow by 3% to 5%, with a more optimistic increase of above 5% for warehouses as demand for high quality storage spaces is expected to remain strong.

Recent Publications

THE WEALTH REPORT 2024

Q4 2023 INDUSTRIAL REPORT

SUBSCRIBE to updates and reports delivered to your inbox

SIGN UP ONLINE

For further information, please contact:

Norishikin Khalik
Director
Occupier Strategy and Solutions
+65 6228 7347
norishikin@sg.knightfrank.com

Leonard Tay
Head
Research
+65 6228 6854
leonard.tay@sg.knightfrank.com

Alvin Teng
Director
Occupier Strategy and Solutions (Industrial)
+65 6228 6893
alvin.teng@sg.knightfrank.com

Sim Li Wei
Analyst
Research
+65 6228 6856
liwei.sim@sg.knightfrank.com

Knight Frank

About Knight Frank Singapore
Knight Frank LLP is the leading independent global property consultancy. Headquartered in London, Knight Frank has over 25,728 people, across 604 offices in 58 territories. The Group advises clients ranging from individual owners and buyers to major developers, investors and corporate tenants. Knight Frank has a strong presence in Singapore with a head office and two subsidiaries: Knight Frank Property & Facilities Management and KF Property Network. For further information about the Company, please visit www.knightfrank.com.sg.