

SINGAPORE RESEARCH INDUSTRIAL



Q1 2018 INDUSTRIAL MARKET SNAPSHOT

Upcoming New Supply (Q2 2018 - 2021):

42.1 million sq ft

(8.1% of total current stock¹)

Purchasing Managers' Index (Q1 2018)²

52.9

▲ 0.3% increase q-o-q

Average Industrial Rents (Island-wide)³:

\$S1.98 psf pm

▲ 0.3% decrease q-o-q



TAN BOON LEONG
Executive Director & Head,
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"We expect to see demand for industrial spaces recovering this year as the manufacturing sector continues its stellar performance."

RENEWED BUSINESS EXPANSION BY INDUSTRIALISTS ON THE BACK OF POSITIVE ECONOMIC OUTLOOK AND IMPROVING DEMAND FOR INDUSTRIAL SPACES IN KEY SECTORS

Average rents of conventional factory spaces increased by 0.3% q-o-q in Q1 2018 as demand for industrial spaces began to increase on the back of robust economic growth.

Continued robust performance in the manufacturing sector for first quarter of 2018

- **Based on advance estimates from the Ministry of Trade and Industry (MTI), the Singapore economy expanded by 4.3% (year-on-year) y-o-y in Q1 2018**, higher than the 3.6% y-o-y growth reported in the previous quarter. The manufacturing sector saw the largest expansion rate at 10.1% on a y-o-y basis, which was supported by the robust performance of the electronics and precision engineering clusters.
- **Non-oil domestic exports (NODX) fell 2.7% y-o-y in March 2018**. This follows the steeper 6.0% y-o-y decline in the previous month albeit both electronics and non-electronics exports declined at a slower pace. The decline was also attributed to a higher base set in March 2017.

¹ Source: JTC, data as of Q1 2018. Industrial spaces include single-user and multiple-user factories, business parks and warehouses. 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.

- **The Singapore Purchasing Managers' Index (PMI)¹ expanded for the 19th consecutive month in March 2018 at 53.0, an increase of 0.3 from the previous month.** The increase was largely attributed to a faster growth in factory output, as well as higher new orders and new exports. The new orders index posted its highest reading since December 2009 at 54.9, suggesting that industrial production will continue to keep up its growth pace this year.
- **The number of employment in the manufacturing sector fell for the 13th consecutive quarter** as firms continue to improve their operation efficiency through technology adoption.

Bright spots in notable clusters for 2018

- **Manufacturing sector is expected to continue its growth in 2018**, as manufacturing firms are upbeat about business prospects for the next six months, according to the Business Expectations Survey conducted by the Economic Development Board (EDB). The most optimistic outlook came from the precision engineering cluster, with a net weighted balance of 39% of firms anticipating improved business conditions between April and September of 2018, buoyed largely by the pickup in global demand for semiconductors.
- **Improvement in oil prices could signal better days ahead for the Offshore & Marine (O&M) sector.** Average crude oil prices hit their highest level at US\$64.20 a barrel (as at 31 March 2018) since 2014 due to production cuts from the Organisation of the Petroleum Exporting Countries (OPEC), and projected uptick in Chinese and Indian crude oil demand. Notable firms such as Sembcorp Marine Ltd and Keppel Offshore & Marine Ltd have seen increased enquiries and invitations to tender from oil companies in recent months. Whilst oil prices are very much dependent on global supply and demand dynamics and geopolitical conditions, and may fluctuate in the short to medium term, players from the O&M sector may look to increase their real estate footprint in the medium term to facilitate the higher order books going forward.
- **Growth contributions of the services sector is expected to uplift industrial demand going forward.** Wholesale & Retail Trade and Transportation & Storage sectors, which collectively constitutes 26.2% of Singapore's Gross Domestic Product (GDP) in 2017, could benefit from the growing e-commerce market. The Business to Consumer (B2C) e-commerce market registered 33.1% q-o-q growth in Q1 2018, according to Frost & Sullivan. With notable firms like Shopee and Zalora focusing on establishing their presence in the region, demand for industrial and logistics spaces could increase, notwithstanding higher borrowing costs and rising oil prices.
- **More players in the construction sector expected to expand their real estate footprint in anticipation of increase in public sector work, and from a wave of new developments from collective sales in 2018.** The Building and Construction Authority (BCA) projected the value of construction contracts awarded this year to rise to between \$26 billion to \$31 billion, higher than the S\$24.5 billion awarded in 2017. Some of the key construction projects that could commence as early as end-2018 include Rio Casa, and upcoming infrastructure projects including North-South Corridor, Changi Airport Terminal 5 and KL-Singapore High-Speed Rail station.

Overall island-wide industrial rents increased marginally on a q-o-q basis in Q1 2018

- **Based on Knight Frank's basket of industrial properties, overall island-wide rents for conventional industrial space rose by 0.3% q-o-q to \$1.98 per sq ft per month (psf pm) in Q1 2018 (Exhibit 1),** mainly due to the increases in rentals in the Bukit Merah – Alexandra – Jalan Kilang – Pasir Panjang cluster, Clementi – Toh Tuck – Bukit Batok cluster, and the Woodlands – Sembawang – Admiralty – Yishun cluster.
- **The Clementi – Toh Tuck – Bukit Batok cluster reported the strongest appreciation in rents,** with a 4.9% q-o-q increase to \$1.49 psf pm in Q1 2018, due to the limited availability and positive demand of low to mid-range industrial spaces seen on the ground.
- **Business Park rents rose by 1.2% q-o-q to \$4.19 psf pm,** as leasing activity remains healthy amid the limited available business park spaces in the market.

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.

Leasing activity in Single-user factory on the rise

- **Single-user factory rental transactions saw the highest q-o-q growth amongst all other industrial property types in Q1 2018 at 33.0%.** The increase was largely attributed to the West Region, which saw a 63.6% q-o-q growth in the number of rental transactions recorded.
- **Meanwhile, rental transactions for multiple-user factory saw a slight dip of 1.9% in Q1 2018** on a q-o-q basis. The decline was mainly due to lower leasing activity in the North and North-East Region, where rental transactions saw a 6.3% and 22.6% q-o-q drop.
- **Leasing activity for warehouse units rose to a new high in Q1 2018**, registering 362 caveats in Q1 2018 from 344 caveats in Q4 2017, a 5.2% increase on a q-o-q basis and a 52.1% increase on a y-o-y basis, signalling rising interest in the logistics and warehousing sector.
- **Rental transactions in Business Parks saw a 2.7% dip q-o-q in Q1 2018.** While the decline in volume is marginal, rental activity have seen a sharp spike in transaction numbers on a y-o-y basis since Q1 2017, due in part to the completion of Mapletree Business City Phase II, which added 1.2 million sq ft NLA into the market supply. Business Parks rental volume on a y-o-y basis registered a 128.1% increase in Q1 2018.

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)
	Q4 2017	Q1 2018	
Kaki Bukit - Ubi - Paya Lebar - Eunos	\$2.18	\$2.16	-0.9%
Macpherson - Tai Seng - Defu	\$1.68	\$1.67	-0.6%
Kallang - Geylang - Bendemeer	\$2.97	\$2.97	No change
Bukit Merah - Alexandra - Jalan Kilang - Pasir Panjang	\$2.78	\$2.79	0.4%
Serangoon - Ang Mo Kio - Lorong Chuan - Toa Payoh - Pemimpin	\$1.82	\$1.82	No change
Clementi - Toh Tuck - Bukit Batok	\$1.42	\$1.49	4.9%
Pioneer - Tuas	\$1.62	\$1.61	-0.6%
Woodlands - Sembawang - Admiralty - Yishun	\$1.31	\$1.32	0.8%
Average	\$1.97	\$1.98	0.3%
Business Park Space (Island-wide)	\$4.14	\$4.19	1.2%

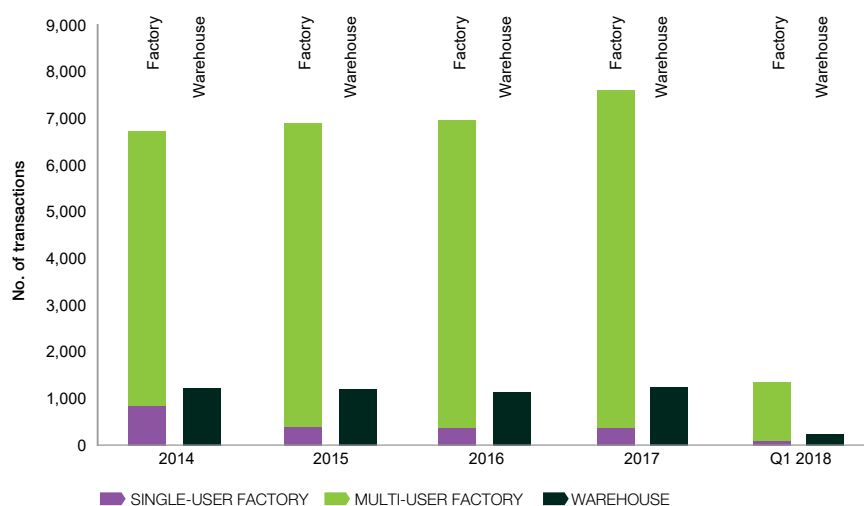
Source: Knight Frank Research

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

Rental Transaction Volume of Factory and Warehouse Units



Source: REALIS (as at 4 April 2018), Knight Frank Research

Market Outlook

- According to the Monetary Authority of Singapore (MAS), economic growth for Singapore in 2018 is expected to come in at 3.2% y-o-y, up from the earlier 3.0% forecast at the end of 2017. This comes on the back of an outperforming electronics sector buoyed by stronger global demand.
- As the Singapore economy continues to expand at a healthy rate with improvement in business sentiments, especially in the construction and O&M sectors, demand for real estate spaces to meet the expected increase in industrial production and warehousing needs is set to grow.
- Whilst new supply of industrial spaces coming on-stream in 2018 is lower at 15.4 million sq ft compared with 20.9 million sq ft in 2017, the occupancy rates of current industrial spaces are envisaged to recover, albeit on a two-tier level with high-specification industrial spaces seeing a faster rate of recovery to suit industrialists' needs compared to conventional industrial spaces.
- The prospect of a positive economic outlook together with the robust performance of the manufacturing sector are encouraging to the industry with most industrialists looking to expand their businesses, taking up more industrial spaces in the short to medium term.

EXHIBIT 3

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

-2.0% to 1.0%

y-o-y

Average overall
industrial rents

-3.0% to 0.5%

y-o-y

Average price for
leasehold factory
and warehouse units

1.0% to 3.0%

y-o-y

Average price for
freehold factory and
warehouse units

Source: Knight Frank Research

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