

Q2 2019 INDUSTRIAL MARKET SNAPSHOT

Upcoming New Supply (Q2 2019 - 2023):
50.6 million sq ft Gross Floor Area

Average Industrial Rents (Island-wide):

S\$1.98 psf pm

▼ 1.0% decrease q-o-q

▲ 0.4% increase y-o-y

Average Business Park Rents (Island-wide):

S\$4.34 psf pm

▲ 0.5% increase q-o-q

▲ 2.2% increase y-o-y



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“The uncertainties and downside risks emanating from the geopolitical situation has dampen tenants’ and buyers’ sentiments. However, the moderated pipeline supply, together with growth in some sectors, will keep the industrial market largely stable.”

INDUSTRIAL RENTS EASED AMID WEAKER OUTLOOK IN THE MANUFACTURING SECTOR

The global economic growth outlook continued to be weighed down by the escalated trade tensions between the United States of America and China. As an open economy that is heavily exports oriented, the heightened tensions affected trade-related sectors in Singapore, and compounded challenges faced by the electronics and general precision sectors, both of which saw a decline in output.

- **The Ministry of Trade and Industry (MTI) moderated their growth forecast for Singapore from 1.5% to 3.5% announced towards the end of 2018 to 1.5% to 2.5% in May 2019.** This is largely due to uncertainties and downside risks arising from growing geopolitical tensions, Brexit, and a slower than expected growth in the Chinese economy.
- **The business sentiments within the manufacturing sector for April to September 2019 were weaker compared to the outlook a year ago.** A net weighted balance of 1% of manufacturers expects an improvement in business situation for the period April to September 2019, compared to the net weighted balance of 13% in previous year. The electronics, precision engineering and general manufacturing clusters expectations remains subdued on the back of slower global economic growth.

- **The transport engineering cluster was the most optimistic cluster within the manufacturing sector.** The marine & offshore engineering segment anticipates an increase in ship repairing work as shipowners must install a ballast water management system in view of the new environmental regulations. They also expect higher production of oil & gas-field equipment, with the improvement in the energy sector.
- **The non-oil domestic exports (NODX) of Singapore declined further in May 2019 by 15.9% year-on-year (y-o-y), beating the 10.0% and 11.8% drops recorded in April and March 2019 respectively.** The decrease in electronic NODX (-31.4%), civil engineering equipment parts (-92.4%), non-monetary gold (-72.4%) and petrochemicals (-14.7%) contributed to the decline in exports in May.
- **Singapore Purchasing Managers' Index (PMI)¹ also slipped under 50.0 for the first time in May 2019 after 32 months of consecutive expansions.** The electronics sector dropped by 0.1 points month-to-month to 49.4 in May, the seventh consecutive month of decline. The US-China trade war, which slowed Chinese demand for manufactured goods made in Singapore, and the slump in technology demand contributed to the decline.

Trends

- **Singapore set up Singapore Food Agency and aims to be an Agri-Food Hub. The government is also planning to set aside land parcels for the Agri-tech sector.** Under the Draft Master Plan 2019 unveiled by the Urban Redevelopment Authority of Singapore, Woodlands Regional Centre will be seamlessly connected to Senoko Food Zone, the farm lands in Lim Chu Kang and Sg Kadut, and the upcoming Agri-Food Innovation Park to form the Northern Agri-Tech and Food Corridor. The area is envisioned to be the largest economic hub in the North Region.
- **Correspondingly, Singapore Food Agency released ten parcels of land in June 2019, totalling over 1.1 million sq ft, zoned for general agriculture (food) farming, vegetable farming, and beansprout farming.** The majority of the agriculture space will be tendered using concept and price method, and the bids will be accessed based on production capability and innovation, and business sustainability.
- **Demand for industrial space by medical equipment players is expected to remain robust, with the output of medical equipment showing consistent growth.** The Singapore Economic Development Board projects that the Medical Technology market in Asia will overtake the EU market by 2020, with an CAGR of 8%. Singapore is well positioned as a gateway for Medical Technology players to access the growing market. In May 2019, PerkinElmer opened its new and largest lab at JTC MedTech Hub, the largest medical detection and analytical instrument manufacturing facility globally.

In Q2 2019, monthly gross rents of industrial properties inched lower by 1.0% q-o-q amid weaker sentiments in the manufacturing sector.

- **Based on Knight Frank basket of industrial properties, average rents for island-wide industrial space declined by 1.0% q-o-q to \$1.98 per square ft per month (psf pm) in Q2 2019.** The uncertain external environment, contraction in the electronics sector and, moderated economic outlook pressured industrial rents to decline. Notwithstanding the above, the decline in rents was capped by lower new supply in Q1. The y-o-y increase in multiple user factory stock in Q1 2019 was 2.5 million sq ft, which was less than half of the 5.2 million sq ft y-o-y addition in Q1 2018.
- **The total number of tenancies from April to May 2019 increased 5.2% y-o-y to 1,635 factory units.** Warehouse space leasing activities was muted in April and May 2019, as number of tenancies declined 2.6% y-o-y to 137 warehouse units over the same period.

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.

EXHIBIT 1

Average Monthly Gross Rentals for Conventional Industrial Space by Cluster

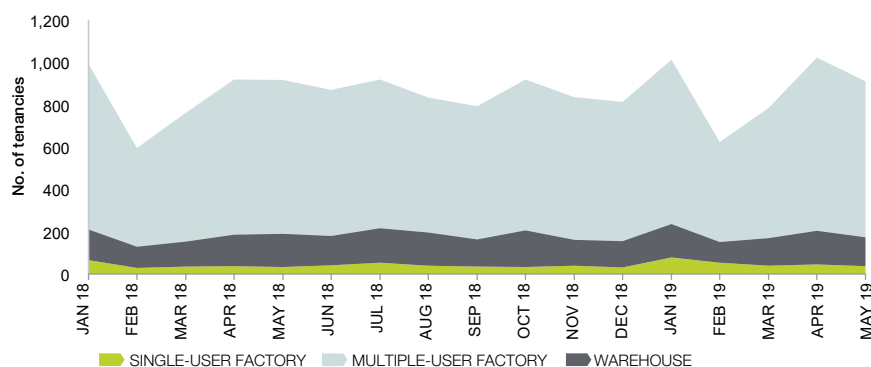
Industrial Cluster	Monthly Gross Rentals (Upper Floor, S\$ psf)		% Change (q-o-q)
	2 2019	Q1 2019	
Kaki Bukit - Ubi - Paya Lebar - Eunos	\$2.10	\$2.11	-0.3%
Macpherson - Tai Seng - Defu	\$1.59	\$1.59	-
Kallang - Geylang - Bendemeer	\$3.10	\$3.18	-2.6%
Bukit Merah - Alexandra - Jalan Kilang - Pasir Panjang	\$2.71	\$2.69	0.5%
Serangoon - Ang Mo Kio - Lorong Chuan - Toa Payoh - Pemimpin	\$1.81	\$1.82	-0.6%
Clementi - Toh Tuck - Bukit Batok	\$1.56	\$1.59	-2.1%
Pioneer - Tuas	\$1.62	\$1.65	-2.2%
Woodlands - Sembawang - Admiralty- Yishun	\$1.36	\$1.38	-0.7%
Average	\$1.98	\$2.00	-1.0%
Business Park Space (Island-wide)	\$4.34	\$4.32	0.5%

Source: JTC (as at 20 June 2019), Knight Frank Research

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

EXHIBIT 2

Number of Tenancies of Factory and Warehouse Units



Source: JTC (as at June 2019), Knight Frank Research

Market Outlook

- **Demand for industrial spaces is expected remain soft on the back of an uncertain trade outlook.** Knight Frank envisages industrial rents to decline up to 2.0% y-o-y by end 2019. Demand from other non-electronic clusters, such as transport engineering and medical equipment segments, and the lower supply in the pipeline should keep the rental decline in check.
- From Q2 2019 to 2023, approximately 50.6 million sq ft of industrial space is expected to be completed. Out of which 13.3 million sq ft of industrial space is slated for completion by end 2019, lower than the 5-year average new completion of 17.0 million sq ft from 2014 to 2018. Upcoming supply expected supply by end-2019 includes 0.8 million sq ft of multiple-user factory space and 10.7 million sq ft of single-user factory space. A total of 1.6 million sq ft of warehouse space is slated for completion between Q2 2019 to Q4 2019.

EXHIBIT 3

Island-wide Rental Forecast

Forecast for end 2019

0.0% to -2.0%

y-o-y

Average rents

Source: Knight Frank Research

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