

RESTRUCTURING OF INDUSTRIAL SPACE DEMAND CONTINUES AS INDUSTRIALISTS LOOK TOWARDS AUTOMATION AND ROBOTICS TO INCREASE PRODUCTIVITY

The manufacturing industry is envisaged to continue its streak of growth, at least until Q4 2017, powered by the robust performance in the electronics sector. Leasing demand for industrial spaces stabilised in Q3 2017 with stronger growth for warehouses. Robotics and automation are notable themes for the third quarter as the Government encourages the industry to improve efficiency and boost productivity.

Manufacturing sector displayed stronger growth momentum in Q3 2017

- **Singapore's Q3 2017 Gross Domestic Product (GDP) advance growth estimates exceeded past forecasts to hit a 3-year high of 4.6%.** On a quarter-on-quarter seasonally-adjusted annualised basis, the economy expanded by 6.3%, an improvement from the 2.4% growth in the second quarter. Manufacturing remained the star performer with an expansion of 15.5% y-o-y too, in Q3 2017, with the electronics cluster manufacturing output reporting an increase for the 19th consecutive month in September 2017, at 33.2% y-o-y.
- **Singapore's exports fell 1.1% y-o-y in September 2017** after reporting four months of growth. The decline was attributed to an underwhelming performance from electronics exports, which reported a drop of 7.9% y-o-y. However, shipment of non-electronics exports rose by 1.9% y-o-y.
- **The Singapore Purchasing Managers' Index (PMI)¹ expanded for the 14th consecutive month in October 2017.** The PMI hovered between 51.0 and 52.0 in Q3 2017, with a faster rate of expansion in all key indicators. The local manufacturing sector saw a larger number of new orders coming in on a slower rate of expansion for stocks of finished goods. According to the Singapore Economic Development Board (EDB), a net weighted balance of 4% of manufacturers anticipates a favourable business situation for H2 2017 compared to Q2 2017, particularly in the biomedical manufacturing, precision engineering and electronics clusters.
- **Number of employment in the manufacturing sector fell by 3,600 in Q2 2017 compared to the previous quarter.** While growth in this sector has been mainly driven by electronics and precision engineering clusters, marine and offshore engineering saw declines in the employment figures over the past four years, largely due to weaker oil prices.



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“As restructuring in industrial operations and space demand continues, we could see a mixed bag performance across different industrial types and leases, with well-located and high-specification industrial assets to be more sought after by users and investors.”

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.

Adoption of robotics and automation to improve efficiency remains the main theme for third quarter.

- **Unveiling of the Industry Transformation Maps (ITMs) for Electronics and Wholesale Trade by the Ministry of Trade and Industry in Q3 2017.** Both ITMs are primarily aimed at digitalising companies to boost productivity through the adoption of robotics and advent of digital platforms. Furthermore, individuals will also be equipped with higher value-add skills through the development of Skills Framework and Professional Conversion Programmes under Workforce Singapore.
- **A*Star, Rolls-Royce and Singapore Aero Engine Services to launch a joint laboratory to test new aerospace technology.** The \$60 million laboratory will aid in breaking frontiers for aerospace manufacturing, as well as maintenance, repair and overhaul (MRO) efficiency through advanced processes, automation and digital technologies. As a key aviation hub, Singapore accounts for 10% of global MRO output, according to the Economic Development Board.
- **Opening of YCH's new Supply Chain City in Jurong West.** The logistics facility features an Automated Storage and Retrieval System with a fully ramped-up warehouse that can reduce the retrieval time of a pallet from over three minutes to just ten seconds. Along with inventory-counting drones and advanced robotics, the facility demonstrates the harnessing of technology to increase logistical efficiency in the region.

Overall island-wide rents increased marginally in Q3 2017

- **Based on Knight Frank's basket of industrial properties, overall island-wide rents for conventional industrial space rose by 0.5% q-o-q** to \$1.98 per sq ft per month (psf pm) in Q3 2017 (Exhibit 1), mainly due to the increase in rentals in the Bukit Merah – Alexandra – Jalan Kilang – Pasir Panjang clusters.
- **The Bukit Merah – Alexandra – Jalan Kilang – Pasir Panjang clusters reported the strongest appreciation in rents**, with a 1.8% q-o-q increase to \$2.83 psf pm in Q3 2017.
- **Largest decline in rents seen in the Clementi – Toh Tuck – Bukit Batok cluster during Q3 2017**, with a decline of 1.4% q-o-q to \$1.40 psf pm in Q3 2017 from \$1.42 psf pm in Q2 2017, largely due to lower rental transactions reported from factory buildings like Enterprise Hub.
- **Business Park rents remained unchanged for two quarters** at \$4.24 psf pm.

Strata-titled factory and warehouse unit transactions declined in Q3 2017

- **Demand for total strata-titled factory units waned** in Q3 2017 (184 caveats) from Q2 2017 (212 caveats). The decline is also prominent on a y-o-y basis at -6.6% from 197 caveats in Q3 2016. Only 1 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 77.7% (143 caveats) of the 184 strata-titled factory caveats lodged in Q3 2017.
- **Total strata-titled factory resale transactions fell by 9.0% q-o-q** to 183 resale caveats in Q3 2017, and a 7.6% y-o-y increase from 170 resale caveats in Q3 2016. 77.6% of the resale caveats lodged were leasehold properties, with 55.7% of them being properties with a leasehold period of 31 to 60 years.
- **Demand for strata-titled warehouse units saw a decline in Q3 2017** (9 caveats) compared to previous quarter (13 caveats), with majority of the strata-titled warehouse caveats coming from the Central and East Regions. The decline is also reported on a y-o-y basis from 14 caveats in Q3 2016.

Mixed performance for rental transaction volume in Q3 2017

- **Rental transactions for single-user factory units reported an increase** island-wide in Q3 2017 to 108 records, from 85 in Q2 2017. The North Region reported the biggest increase with 7 more transactions in Q3 2017 compared to the previous quarter.
- **Rental transactions for multiple-user factory units fell** from a high of 2,004 in Q2 2017 to 1,892 in Q3 2017, with the West Region reporting the biggest drop in the number of transactions from 336 in Q2 2017 to 276 in Q3 2017.
- **Total warehouse unit rental transactions rose** from 312 in Q2 2017 to 358 in Q3 2017, signalling a rise in interest for warehouse spaces. The East Region reported the biggest increase in the number of transactions from 38 in Q2 2017 to 54 in Q3

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)
	Q2 2017	Q3 2017	
Kaki Bukit - Ubi - Paya Lebar – Eunos	\$2.11	\$2.12	0.5%
Macpherson - Tai Seng – Defu	\$1.71	\$1.71	No change
Kallang - Geylang – Bendemeer	\$2.94	\$2.97	1.0%
Bukit Merah - Alexandra - Jalan Kilang - Pasir Panjang	\$2.78	\$2.83	1.8%
Serangoon - Ang Mo Kio - Lorong Chuan -Toa Payoh - Pemimpin	\$1.84	\$1.83	-0.5%
Clementi - Toh Tuck - Bukit Batok	\$1.42	\$1.40	-1.4%
Pioneer - Tuas	\$1.62	\$1.61	-0.6%
Woodlands - Sembawang - Admiralty- Yishun	\$1.33	\$1.33	No change
Average	\$1.97	\$1.98	0.5%
Business Park Space (Island-wide)	\$4.24	\$4.24	No change

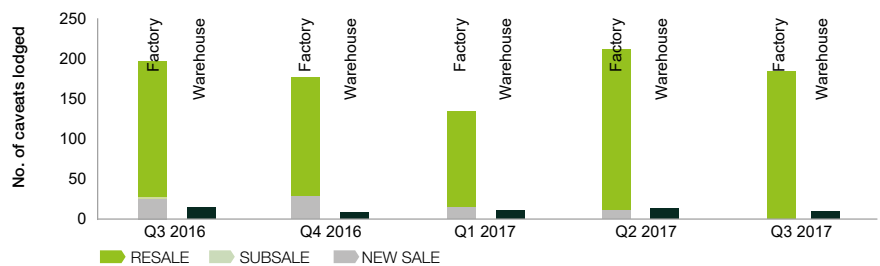
Source: Knight Frank Research

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*

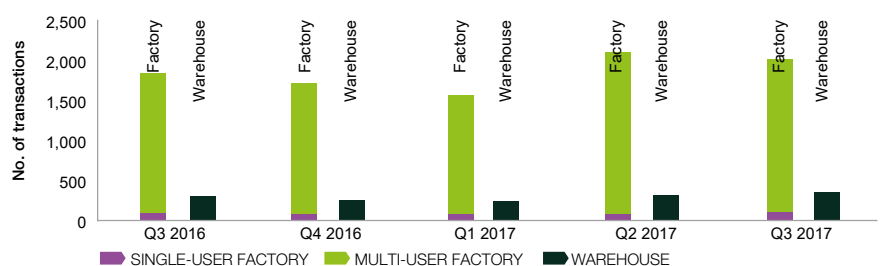


Source: REALIS (as at 9 October 2017), Knight Frank Research

*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 6 October 2017), Knight Frank Research

Market Outlook

- The buoyant manufacturing outlook will continue to support demand for high-specification industrial spaces in the following quarters.
- More industrial players are exploring the adoption of robotics and automation in their operations to enhance efficiency, and with this trend gaining momentum in the short to medium term from continued support by the various government bodies.
- Upcoming supply of industrial spaces by end of 2017 is estimated at 10.0 million sq ft. This brings the total new supply coming onstream in 2017 to 23.4 million sq ft, 7.4% higher than the total new supply in 2016.
- As industrialists are faced with more alternatives for industrial spaces due to more new supply coming onstream this year, overall rents and prices for leasehold industrial units are expected to remain subdued in the short term. However, the ample new supply may not be fully optimised as industrialists may also experience difficulties to meet the stringent requirements set by JTC for the new industrial spaces.
- With more industrial land leases expiring in areas like Sungei Kadut and Teban, there could be an anticipated higher number of sale and leasing transactions in the upcoming years.
- As the restructuring of Singapore's manufacturing industry turns higher gear along with macroeconomic trends, the demand dynamics of industrial spaces could evolve into various possibilities. A mixed bag performance across different industrial types could be more pronounced in the coming quarters - waning demand for shorter-lease and older properties, continuing demand for longer-lease and well-located properties, and emerging demand for warehouses as the logistics industry morph into greater diversification of use possibilities.

EXHIBIT 4

Island-wide rental and price forecasts, by property types for Q4 2017

-3.0% to -5.0%
y-o-y

Average rents

-5.0% to -8.0%
y-o-y

Average price for **leasehold** factory and warehouse units

0.0% to 2.0%
y-o-y

Average price for **freehold** factory and warehouse units

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