

SINGAPORE RESEARCH INDUSTRIAL



Q3 2018 INDUSTRIAL MARKET SNAPSHOT

Upcoming New Supply (Q3 2018 - 2021)¹:
45.6 million sq ft Gross Floor Area

Average Industrial Rents (Island-wide)²:
S\$2.00 psf pm

▲ 1.6% increase q-o-q

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

▲ 1.4% increase q-o-q



TAN BOON LEONG
Executive Director & Head,
Industrial

“With industrial rents and capital values expected to move sideways, it is a good time for manufacturers to consider extracting value from their industrial assets, especially if the properties have expiring leases .”

STRONG DEMAND FOR WAREHOUSE SPACE SEEN ON THE BACK OF THE POSITIVE MANUFACTURING PERFORMANCE FOR THE FIRST NINE MONTHS OF 2018

The Singapore's manufacturing sector cruised through Q3 2018 with strong manufacturing export and output numbers. However, the manufacturing sector could see a slowdown with the kick off of the trade war between US and China.

- **Singapore's economy moderated to 2.6%¹ year-on-year (y-o-y) in Q3 2018, slower than the 4.1% y-o-y in Q2 2018.** This was mainly attributed to the slowdown seen in the manufacturing sector during Q3 2018. Compared to 10.6% y-o-y expansion in Q2 2018, the manufacturing sector grew 4.5% y-o-y in Q3 2018. Nevertheless, economists polled by the Monetary Authority of Singapore in the September survey, expect the manufacturing sector to be the largest contributor to growth this year.
- **According to the sentiment survey by Singapore Economic Development Board (EDB), the manufacturing sector anticipates business prospects to remain unchanged for the second half of 2018.** Apart from the chemicals cluster, all sectors envisage better business prospects due to projection of higher export orders in H2 2018. Only the chemicals cluster expects lower output because of scheduled plant maintenance during this period. Notwithstanding the positive sentiments, manufacturers are likely to hire fewer workers in Q3 2018, compared to Q2 2018.

¹ Based on the press release, dated 12 October 2018, on flash estimates from the Ministry of Trade and Industry

- **Non-oil domestic exports (NODX) grew 11.0% y-o-y in July but slowed to 5.5% y-o-y in August.** Non-electronic exports continued expanding, whilst electronics declined during this period. In terms of export to the top ten markets, US and Indonesia contributed to the highest y-o-y growth for July and August 2018 on a seasonally adjusted basis.
- **The Singapore Purchasing Managers' Index (PMI)² expanded for the 25th consecutive month in September 2018.** The PMI rose from 52.3 in July to 52.6 in August but slipped to 52.4 in September 2018. The gradual slowdown in September was mainly due to lower new orders, new exports, slower factory activities and lower inventory level.

Trends

- **The US-China trade tension deepens, as the trade tariffs took effect on 24 September 2018.** The US imposition of the 10% tariffs on US\$200 billion worth of Chinese imports has taken effect from 24 September 2018. Likewise, China had retaliated by imposing tariffs on US\$60 billion worth of US good on that same day. Amid the trade tension, Alibaba has dropped the promise of creating a million jobs in the US. For now, Singapore's NODEX to US expanded substantially in July and August this year, largely supported by a strong export of pharmaceuticals. In contrast, NODEX to China declined 3.9% and 17.8% y-o-y in July and August 2018 respectively.
- **Singapore strengthens its regional position in the data storage sector, after Facebook's decision to build its first Asian data centre here.** Facebook will invest more than S\$1.4 billion to build this data centre in Tanjong Kling, and the facility is slated to start operations in 2022. Spanning across 170,000 square metres, the construction and operation of the facility is set to create new jobs in Singapore.
- **The construction and the aerospace industries have taken steps to advance additive manufacturing or 3D printing technology within their sectors.** Tiong Seng Holdings Limited recently inked a memorandum of understand with Laing O'Rourke, a UK based construction firm, to develop the use of 3D printing technology in the construction industry. Similarly, the National Additive Manufacturing Innovation Cluster and the Association of Aerospace Industries, in partnership with the Civil Aviation Authority Singapore and Workforce Singapore, have launched a programme to train specialised workers in the development and use of 3D printing technology.
- **Industrialists can soon rent costly food processing equipment for food testing purpose in the newly opened JTC Food Hub @ Senoko.** Tenants of the newly completed food factory can make use of the integrated cold room and warehouse facilities on a pay-per-use basis. At the opening ceremony on 31 July 2018, a Memorandum of Understanding (MOU) was inked between Enterprise Singapore, JTC Corporation and the Singapore Institute of Technology (SIT) to set up a shared facility for small batch production to facilitate innovation in the industry. The shared facility should be operational by end 2019 and will provide industrialists the alternative to rent expensive food processing equipment for food testing purpose on a pay-per-use basis.

Higher warehouse leasing activities reported in July and August 2018 supported by encouraging manufacturing numbers.

- Based on Knight Frank's industrial basket, average rents for island-wide industrial space remained stable at S\$2.00 per square foot per month (psf pm) in Q3 2018. The value and the number of industrial leasing transactions recorded between July and August 2018 grew 26.0% and 11.7% respectively compared to the same period last year.
- The value and number of warehouse leasing transactions surged the most compared to the other industrial property types. Interest in warehouse space picked up significantly since Q3 2017 stemming from higher output from the manufacturing sector. Between July and August 2018, total warehouse leasing transaction was valued at S\$4.0 million, while total warehouse leasing transaction value reached a ten-year historical high of S\$6.3 million in Q2 2018.

²The 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)
	Q2 2018	Q3 2018	
Kaki Bukit - Ubi - Paya Lebar - Eunos	\$2.10	\$2.10	0.7%
Macpherson - Tai Seng - Defu	\$1.60	\$1.60	0.3%
Kallang - Geylang - Bendemeer	\$3.00	\$3.20	6.1%
Bukit Merah - Alexandra - Jalan Kilang - Pasir Panjang	\$2.80	\$2.70	-1.7%
Serangoon - Ang Mo Kio - Lorong Chuan - Toa Payoh - Pempin	\$1.80	\$1.80	0.8%
Clementi - Toh Tuck - Bukit Batok	\$1.60	\$1.60	-0.2%
Pioneer - Tuas	\$1.60	\$1.70	4.6%
Woodlands - Sembawang - Admiralty - Yishun	\$1.30	\$1.40	0.9%
Average	\$2.00	\$2.00	1.6%
Business Park Space (Island-wide)	\$4.20	\$4.30	1.0%

Source: Knight Frank Research

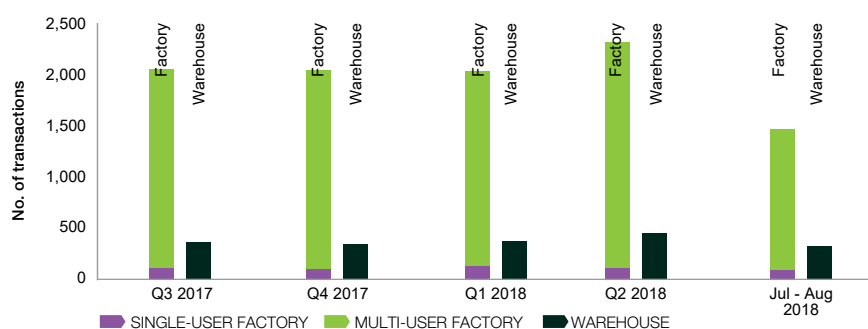
Note: Rentals are based on Knight Frank's basket of industrial properties, which are monitored every quarter.

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

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

EXHIBIT 2

Rental Transaction Volume of Factory and Warehouse Units



Source: REALIS (as at 24 September 2018), Knight Frank Research

Market Outlook

- The trade war between US and China has kicked off on 24 September 2018. Key manufacturing indicators suggest that Singapore companies that have exposure to China can expect slower export numbers for the second half of 2018.
- As at Q2 2018, the new supply of industrial spaces coming on-stream in 2018 stands at 11.7 million sq ft, with another 35.1 million sq ft coming onstream between 2019 and 2022. For H2 2018, the occupancy rates of current industrial spaces will continue to improve, albeit on a two-tier level, with high-specification industrial spaces recovering faster than conventional industrial spaces.
- Despite the manufacturing sector expanding at a slower rate, Singapore's economy is on track for its projected growth of 3.2% in 2018. The continued expansion will support demand for industrial spaces in the short to medium term. However, there is sufficient supply in the pipeline and firms are unlikely to pay higher rent, especially under the uncertain external environment.

EXHIBIT 3

Island-wide rental and price forecasts, by property types

-2.0% to 1.0%
y-o-y

Average overall
industrial rents

Source: Knight Frank Research

FOR ENQUIRIES ON INDUSTRIAL PROPERTIES, PLEASE CONTACT:

Tan Boon Leong
Executive Director and Head
Industrial
6228 6894
boonleong.tan@sg.knightfrank.com

FOR FURTHER INFORMATION, PLEASE CONTACT:

Lee Nai Jia
Senior Director and Head
Research
6228 6878
naijia.lee@sg.knightfrank.com

Wong Shanting
Manager
Research
6228 7339
shanting.wong@sg.knightfrank.com

Lucy Zhu
Analyst
Research
6228 6584
lucy.zhu@sg.knightfrank.com



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