SINGAPORE RESEARCH

INDUSTRIAL

Q3 2019 INDUSTRIAL MARKET SNAPSHOT

Upcoming New Supply (Q3 2019 - 2023):

49.7 million sq ft Gross Floor Area

Average Industrial Rents (Island-wide):

S$1.97 psf pm

▼ 0.5% decrease q-o-q

▼ 1.3% decrease y-o-y

Average Business Park Rents (Island-wide):

S$4.34 psf pm

— No change q-o-q

▲ 1.2% increase y-o-y

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"Given the uncertain external environment, manufacturing companies will face greater challenges in forecasting their space needs in the next three years. They should review their real estate strategy to remain nimble."

INDUSTRIAL MARKET REMAINED SOFT IN Q3 2019 AMID SUBDUED TRADE SECTOR OUTLOOK

The global economic outlook remained subdued in Q3 2019 as the outcome of the trade talks between US and China appeared uncertain. The sentiments of manufacturers were further weakened by the Saudi Arabia oil attacks and growing trade tension between Japan and South Korea. Correspondingly, Singapore's manufacturing sector continued to contract, and industrial rents eased by 0.5% quarter-on-quarter (q-o-q).

- **The Ministry of Trade and Industry downgraded the Singapore GDP growth forecast for 2019 to 0.0% to 1.0% in August 2019.** This downgrading of the estimates was the second adjustment since the 1.5% to 3.5% growth forecast made towards the end of 2018. Global economic outlook continued to weaken in the third quarter of 2019 due to unresolved trade disputes.
- **According to Business Expectations of the Manufacturing Sector, manufacturers expect softer business conditions for the period July to December 2019 as compared to April to June 2019**. Business sentiments worsened compared to the previous period as intensified trade conflicts dampened manufacturers' outlook.
- **The biomedical manufacturing sector was the most optimistic**, backed by higher anticipated demand for biological products. In contrast, the chemicals, electronics, and precision engineering clusters were less confident as they expected their demand from major markets such as China to slow.

- **According to Enterprise Singapore, non-oil domestic exports (NODX) continued to decline for the sixth consecutive month, decreasing 8.9% year-on-year (y-o-y) in August 2019**. Electronic NODX declined 25.9% y-o-y because of slowing sales of semi-conductors and the trade tensions between US and China. The non-electronic NODX declined by 2.2% y-o-y in August 2019, although the decline was moderated compared to previous months. Lower exports of pharmaceuticals, petrochemicals, and primary chemical contributed to the fall.
- **Singapore Purchasing Managers' Index (PMI)[1] stayed below 50.0 at 49.5 on September 2019, indicating a contraction**. It was down by 0.4 points from August, as new orders and factory output receded into the negative zone. The PMI for the electronics cluster declined for the 11th month to 49.1,easing 0.3 points because new orders shrank more rapidly than before.

Trends

- **Energy companies are expanding their capacities and capabilities in Singapore, focusing on sustainable products and renewable energy.** The energy companies are attracted by Singapore's high-quality infrastructure and deep talent pool. In Q3 2019, both Linde and Neste announced plans to expand their physical footprints in Singapore. Neste will be expanding its Tuas facility, increasing its annual renewable fuel production capacity from 1 million tonnes to 2.3 million tonnes. The expanded facility will also be equipped to process a broader range of feedstock and make the process more cost-efficient. Separately, Linde will also be constructing an integrated manufacturing complex that quadruples its current production capacity.
- **Multinational companies are setting up facilities in Singapore to accelerate the development of products at the leading edge and increase their research and development capabilities**. Companies are drawn to the pro-business environment of Singapore, as government and economic agencies collaborate with the private sector. A case in point is Micron Technology that opened its new facility at North Coast Drive in August 2019. The new facility provides space to meet future manufacturing requirements for the production of its 3D NAND flash memory products. It will be home to Micron's NAND Centre of Excellence, enhancing Micron's research and development capabilities. Another notable expansion in Q3 2019 was by the pharmaceutical company GlaxoSmithkline (GSK), opening its S$130 million manufacturing facility in Jurong to accelerate the supply of breakthrough medicines. The facility is also envisaged to be a testbed for digitalising its supply chain and operation processes.

In Q3 2019, the weaker outlook of the manufacturing sector led to slower leasing activities and lower rents despite the moderation in new supply.

- **Based on Knight Frank basket of industrial properties, the average rents for island-wide industrial space eased by 0.5% q-o-q to S$1.97 per sq ft per month (psf pm) in Q3 2019**. Industrial rents declined as most manufacturers, especially the electronics, chemicals, and precision engineering clusters, withheld expansion plans amid anticipated contractions in demand.
- **Nonetheless, the industrial market remained segmented**, with high-technology and high-specifications light industrial spaces in areas of limited supply remaining resilient.
- **The number of tenancies from January to August 2019 increased 5.0% y-o-y**, a smaller rise than the 18.6% y-o-y growth over the same period last year. The moderation in the increase of tenancies was because firms were more cautious in expanding their physical footprint amid the uncertain economic environment.

[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

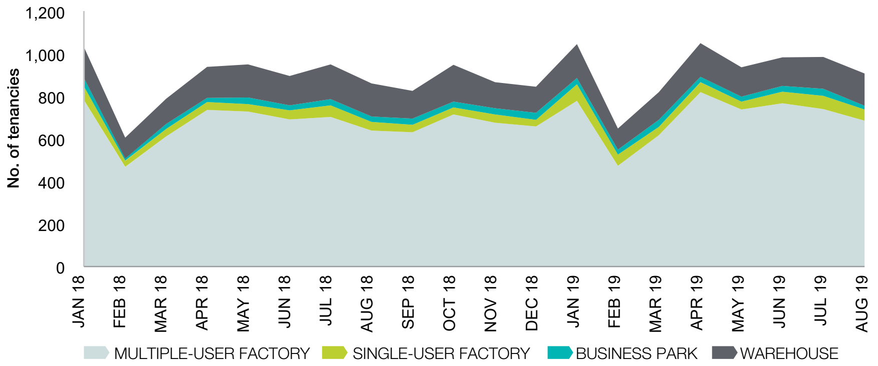
Industrial Cluster	Monthly Gross Rentals (Upper Floor, S$ psf) Q3 2019	Q2 2019	% Change (q-o-q)
Kaki Bukit - Ubi - Paya Lebar – Eunos	$2.08	$2.10	-1.1%
Macpherson - Tai Seng – Defu	$1.59	$1.59	-
Kallang - Geylang – Bendemeer	$3.10	$3.10	-
Bukit Merah - Alexandra - Jalan Kilang - Pasir Panjang	$2.71	$2.71	-
Serangoon - Ang Mo Kio - Lorong Chuan -Toa Payoh - Pemimpin	$1.81	$1.81	-
Clementi - Toh Tuck - Bukit Batok	$1.53	$1.56	-1.8%
Pioneer - Tuas	$1.58	$1.62	-2.0%
Woodlands - Sembawang - Admiralty- Yishun	$1.36	$1.36	-
Average	$1.97	$1.98	-0.5%
Business Park Space (Island-wide)	$4.34	$4.32	0.5%

Source: JTC (as at 17 September 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 Industrial Spaces



Source: JTC (as at 17 September 2019), Knight Frank Research

Market Outlook

- **Moving forward, Knight Frank maintains that industrial rents will decline up to 2.0% y-o-y by end 2019**. Despite the uncertain external environment, there are some bright spots within the manufacturing sector, such as medical equipment and pharmaceutical clusters, and their growth will help support take-up rates of industrial spaces. Singapore is deemed as one of the top medical service hubs in Asia, and is the gateway to the ASEAN market. The medtech companies have been expanding steadily. For instance, Thermo Fisher Scientific reportedly, doubled its output in last three years to US$800 million.
- **The supply of industrial space is likely to remain stable, as the government continues to regulate the supply of industrial space according to market conditions**. From Q3 2019 to 2023, approximately 49.7 million sq ft of new industrial gross floor area is expected to be completed, translating to an annualized supply of about 11.0 million sq ft of gross area. The upcoming supply is lower than the average net new supply of industrial net leasable area from 2015 to 2018 that was about 17.0 million sq ft.

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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