SINGAPORE RESEARCH

INDUSTRIAL

Knight Frank

Q4 2019 INDUSTRIAL MARKET SNAPSHOT

Upcoming New Supply (Q4 2019 - 2023):

42.4 million sq ft Gross Floor Area

Average Industrial Rents (Island-wide):

S$1.97 psf pm

▼ 0.1% decrease q-o-q

▼ 1.6% 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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"As the uncertain external environment weighed on the demand for industrial spaces, industrial rents stayed largely flat in 2019. While we expect the conditions to persist in 2020, the demand for high-specification industrial spaces is projected to grow, supporting high value-added sectors."

INDUSTRIAL MARKET CONTINUES TO REMAIN FLAT IN Q4 2019 AMID LOOMING EXTERNAL HEADWINDS

The prolonged US-China trade dispute, weaker global and Chinese economic growth, and a downturn in the electronics cluster beset Singapore's manufacturing sector in 2019. The weaker performance of the sector has spilt over to the overall industrial market with rents softening by 1.6% y-o-y in Q4. Notwithstanding these, there are some bright spots in the industrial market.

- **The Singapore economy expanded by 0.7% in 2019, lower than the 3.1% growth in 2018, according to the flash estimates by the Ministry of Trade and Industry (MTI).** In Q4 2019, the manufacturing sector contracted by 2.1% year-on-year (y-o-y), extending the 0.9% decline in the previous quarter. The contraction was due to output declines in the electronics, chemicals and transport engineering clusters.
- **According to the Business Expectations of the Manufacturing Sector, a majority of the firms (a weighted 83.0%) expect business conditions from October 2019 to March 2020 to remain similar to that from July to September 2019.** Concerns of global macroeconomic and trade-related uncertainties continued to cloud the outlook of most of the clusters.

- **While Singapore's non-oil domestic exports (NODX) endured nine straight months of decline, the contraction was at a slower pace in November 2019 at 5.9% y-o-y**. The more gradual decline indicates that the manufacturing sector is close to bottoming out. The non-electronic NODX posted a slight growth of 1.3% y-o-y in November 2019, following a 11.2% decline in the previous month. This is the first growth since February 2019, mainly attributable to the increasing demand for non-monetary gold, specialised machinery and non-electronic engines & motors.
- **Singapore Purchasing Managers' Index (PMI) held at 49.8 in November 2019, a slight increase from 49.6 in October despite staying below 50.0**. While the PMI remains in the contraction zone, the marginal gain in PMI reinforces the view that the manufacturing environment is stabilising. The electronics sector PMI rose by 0.4 point to 49.7 in November.

Trends

- **With more global capital shifting towards sustainable efforts, it will encourage growth in the recycling and waste management sector**. In October 2019, 800 Super, a local waste management company, opened its new integrated energy and resource recovery plant costing over S$130.0 million in Tuas. Simultaneously, global e-waste recycler, TES, has announced plans to set up a new facility for recycling lithium-ion batteries found in mobile devices as well as electric vehicles. Spanning approximately 107,639 sq ft and costing some S$20.0 million, this signifies a move towards a green industrial landscape in line with the Government's first-ever Zero Waste Masterplan.
- **The aerospace engineering sector continued to register strong growth, especially for the Maintenance, Repair and Overhaul (MRO) segment**. In November 2019, the industrial index for the aerospace cluster was 15.2% higher than the index a year ago. Based on flight data firm OAG, the most trafficked international airline route in the world is from Kuala Lumpur to Singapore, with 30,187 flights spanning over the year. Additionally, 15 of the top 20 busiest international routes are all in the Asia Pacific region, with 7 carriers operating on these routes on average.
- **The logistics sector in Singapore continued to grow, with an increasing presence of logistic firms focusing on automation**. A French firm, Bollore Logistics, has opened a S$100.0 million-facility in Boon Lay in December 2019, housing a centralised automation system to allow for increased productivity and better use of space. In the same month, F&N Foods has unveiled plans for a smart factory featuring automated storage and retrieval system as well as a Research & Development (R&D) centre to achieve operational synergy and economies of scale. Accordingly, in tandem with the growing e-commerce market, Amazon has announced plans in October for an additional fulfilment centre in Singapore on top of its existing Prime Now facility at Mapletree Logistics Hub.

For the whole of 2019, industrial rents declined by 1.6% y-o-y as trade disputes and the electronic sector downturn capped growth in demand. In Q4 2019, monthly gross rents of industrial spaces stayed primarily flat, posting a marginal decrease of 0.1% q-o-q.

- **Based on Knight Frank's basket of industrial properties, the average rents for island-wide industrial space decreased by 1.6% y-o-y to S$1.97 per sq ft per month (psf pm) in Q4 2019**. Global macroeconomic uncertainties and trade-related concerns continue to exert downward pressures on industrial rents. The decline, however, was moderated due to the slowdown in new supply. Amid the slower performance of the manufacturing sector, the Government has trimmed the industrial land supply for H1 2020 to 7.11 hectares (ha), a drop from the previous total supply of 9.98 ha in H2 2019.
- **The number of tenancies from January to November 2019 recorded a moderate growth of 3.6% y-o-y as compared to the 15.1% y-o-y increase over the same period in 2018**. The trade disputes between China and US probably dampened the growth in demand as firms are more cautious in the expansion of their physical footprints. Warehouse and multiple-user factory spaces' leasing transactions decreased by 3.4% and 11.5% y-o-y respectively in October and November 2019 as compared to the same period in 2018. Nevertheless, the single-user factory as well as business park spaces registered growths of 23.3% and 16.1% y-o-y respectively, supported by expansions in selected sectors such as the biotechnology and information technology.

EXHIBIT 1

Average Monthly Gross Rentals for Conventional Industrial Space by Cluster

Industrial Cluster	Monthly Gross Rentals (Upper Floor, S$ psf) Q4 2019	Q3 2019	% Change (q-o-q)
Kaki Bukit - Ubi - Paya Lebar – Eunos	$2.09	$2.08	0.6%
Macpherson - Tai Seng – Defu	$1.58	$1.59	-0.6%
Kallang - Geylang – Bendemeer	$3.12	$3.10	0.6%
Bukit Merah - Alexandra - Jalan Kilang - Pasir Panjang	$2.68	$2.71	-0.9%
Serangoon - Ang Mo Kio - Lorong Chuan -Toa Payoh - Pemimpin	$1.81	$1.81	-
Clementi - Toh Tuck - Bukit Batok	$1.52	$1.53	-0.3%
Pioneer - Tuas	$1.58	$1.58	-
Woodlands - Sembawang - Admiralty- Yishun	$1.36	$1.36	-0.3%
Average	$1.97	$1.97	-0.1%
Business Park Space (Island-wide)	$4.34	$4.34	-

Source: JTC (as at 17 December 2019), Knight Frank Research
Note: Rentals are based on Knight Frank's basket of industrial properties, which are monitored every quarter.

EXHIBIT 3

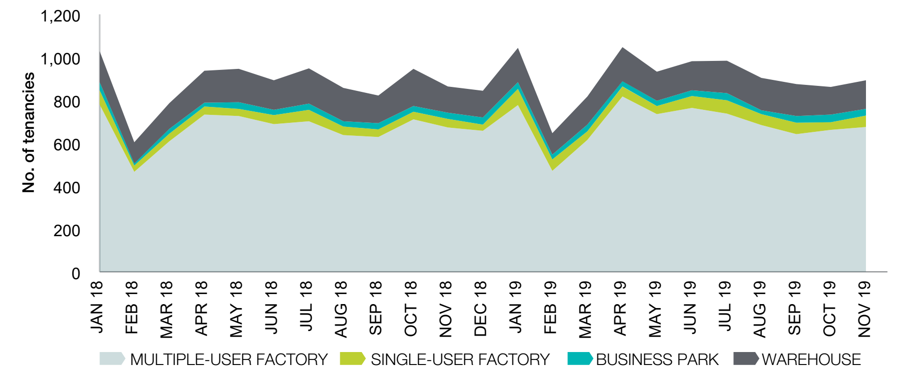
Island-wide Rental Forecast

	Forecast for end 2020
Change in Average Rents	-2.0% to 1.0% y-o-y
Change in Prices of **Freehold** Industrial Properties	0.0% to 3.0% y-o-y
Change in Prices of **Leasehold** Industrial Properties	-3.0% to 0.0% y-o-y

Source: Knight Frank Research

EXHIBIT 2

Number of Tenancies of Industrial Spaces



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

Market Outlook

- Moving forward, Knight Frank maintains that industrial rents will stay flat in 2020. While the US and China are close to signing "Phase One" of the trade agreement, the global economy is weighed down by new uncertainties from the rising tensions in the Middle East region. While the uncertain external environment will keep demand in check, the slowdown in new supply will ensure that the market remains stable.
- The demand for data centre facilities is projected to rise. The rising adoption of cloud technologies as well as the rolling out of the 5G network in 2020 is expected to see an increase in interest for such spaces.
- The industrial market is expected to stay segmented. While the rents and prices of older conventional factories will be under pressure, the demand of high-specification spaces is expected to grow, fuelled by the increase in multinational companies (MNC) projected to set up their regional service centres and R&D hubs in Singapore. The continued growth of high value-added industries, especially the Biomedical Manufacturing, Medical Technology and Information & Communications clusters, is forecasted to support rents and prices of the high-specification factories, including Business Parks.
- The supply of industrial spaces is likely to be moderated as the government continues to monitor the sector closely. From Q4 2019 to 2023, some 50.4 million sq ft of new industrial gross floor area (GFA) is projected to come on stream, approximately 11.9 million sq ft of GFA on an annualised basis.

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