

SINGAPORE RESEARCH INDUSTRIAL



Q2 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

No change 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

“Manufacturers are looking at ways to stay ahead by investing in technology, and they seek industrial spaces that help their needs.”

STRONG MANUFACTURING PERFORMANCE SUPPORTED HIGHER LEASING TRANSACTIONS, BUT SUFFICIENT SUPPLY OF INDUSTRIAL SPACE KEPT RENTS IN CHECK IN H1 2018

In spite of Singapore's stronger economic performance in H1 2018, overall manufacturing output and export are expected to slow down in the second half of 2018, arising from slower China economic growth and the escalation of the trade spat between US and China.

Although Singapore economy forecasted growth remained on track, key manufacturing indicators showed signs of slowing of gradual slowdown in Q2

- According to the advanced estimates by the Ministry of Trade and Industry, Singapore's economy grew by 3.8% y-o-y in Q2 2018, slower than the 4.3% y-o-y growth in Q1. The slower economy was largely due to the moderated rate of expansion in the manufacturing sector and the service producing industries during Q2 2018. Nevertheless, the economists polled by the Monetary Authority of Singapore in May 2018 expected the manufacturing sector to grow further albeit concerns of the external environment.

¹ Source: JTC, data as of Q2 2018. Industrial spaces include single-user and multiple-user factories, business parks and warehouses. ² Source: Knight Frank Research. 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.

- **According to the Singapore Economic Development Board (EDB), the manufacturing sector anticipates better business prospects between April and September 2018.** In terms of output forecast, the biomedical manufacturing cluster and precision engineering clusters expect higher output in Q2 2018. On the hiring front, manufacturing companies were likely to hire fewer workers in Q2 2018 compared to the preceding quarter due to the weaker transport engineering cluster. Nevertheless, the manufacturing firms are likely to invest similar or higher level of capital expenditure to upgrade their existing equipment, especially for companies seeking to automate their work process.
- **Growth in non-oil domestic exports (NODX) slowed down in June 2018.** After reporting y-o-y growth of 11.8% and 15.5% for April and May 2018 respectively, the growth for NODX slowed down to 1.1% in June 2018. For the whole of Q2 2018, non-electronic exports have increased, while electronic exports have declined.
- **The Singapore Purchasing Managers' Index (PMI)³ reported a lower rate of expansion for Q2 2018.** This was due to slower growth in factory output, new orders and exports. The positive outlook for electronic products was dampened by concerns over a potential trade war.

Trade spat and slowdown in the China economy to drag Singapore's economy in H2 2018.

- **Slowing China's economy will impact Singapore trade export.** China has been one of Singapore top trading partners for electronic goods, and Singapore manufacturers will be adversely affected if China's economy were to grow at slower pace. Notwithstanding, China still has sufficient policy instruments to boost up the economy.
- **Increasing protectionism policies will compromise global growth.** The US government announced a series of tariffs on imports from China and faced similar retaliation from the Chinese government since January this year. As of June 2018, China has retaliated with \$50 billion worth of tariffs on US goods, and US government furthered declared it will identify tariff on \$200 billion worth of Chinese goods, with another \$200 billion if necessary. Given Singapore open economy, the trade war would impact Singapore because of its role in global supply chains. Nevertheless, the Singapore government has been actively working on free trade agreements with other countries and economic blocs to ameliorate the impact of trade war. For example, Singapore are working with South American customs union, South Korea and European Union on the trade agreements.

The industrial sector reported higher leasing activities in Q2 2018 on the back of positive economic growth.

- The value and the number of industrial leasing transactions in Q2 2018 (excluding business parks) grew 15.2% and 1.8% y-o-y respectively. Based on Knight Frank's basket of industrial buildings, island-wide average rents remained stable at S\$2.00 per square feet per month (psf pm) for Q2 2018.
- Likewise, the number of business park transactions rose 26.0% y-o-y, with the total leasing value reaching a historical high of S\$3.2 million this quarter. This was largely attributed to the leasing transaction value in the Central Region, where business park spaces are highly sought after due to its central location.
- Business park space rents inched up by 1.4% q-o-q in Q2 2018, but the increase largely comes from the newer business parks, which usually have healthy occupancy rates, at choice locations.

³ 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.

A total of 13 industrial sites were release under the H2 2018 Industrial Government Land Sales (IGLS) programme.

- All the six sites under the confirmed list, and the seven sites under the reserve list offer shorter lease tenure of between 20 to 30 years.

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) |
|--|---|---------------|------------------------|
| | Q1 2018 | Q2 2018 | |
| Kaki Bukit - Ubi - Paya Lebar - Eunos | \$2.20 | \$2.10 | -3.2% |
| Macpherson - Tai Seng - Defu | \$1.70 | \$1.60 | -7.0% |
| Kallang - Geylang - Bendemeer | \$3.00 | \$3.00 | No change |
| Bukit Merah - Alexandra - Jalan Kilang - Pasir Panjang | \$2.80 | \$2.80 | 0.7% |
| Serangoon - Ang Mo Kio - Lorong Chuan - Toa Payoh - Pempin | \$1.80 | \$1.80 | 0.2% |
| Clementi - Toh Tuck - Bukit Batok | \$1.50 | \$1.60 | 5.6% |
| Pioneer - Tuas | \$1.60 | \$1.60 | No change |
| Woodlands - Sembawang - Admiralty- Yishun | \$1.30 | \$1.30 | No change |
| Average | \$2.00 | \$2.00 | No change |
| Business Park Space (Island-wide) | \$4.20 | \$4.30 | 1.4% |

Source: Knight Frank Research

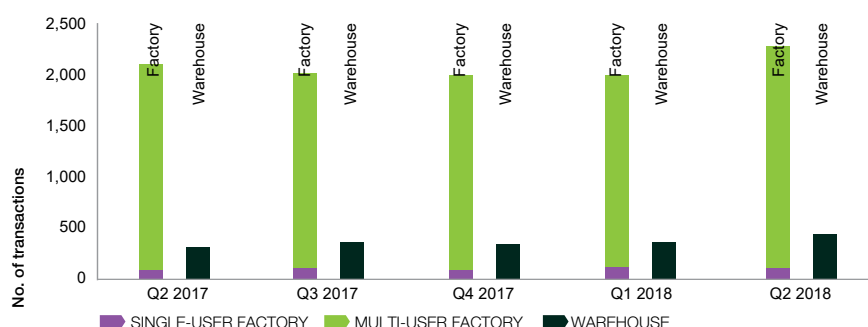
Note: Rentals are based on Knight Frank's basket of industrial properties, which are monitored every quarter.

* 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 20 July 2018), Knight Frank Research

Market Outlook

- The tension between US and China, coupled with the gradual slowdown in China's growth is expected to dampen Singapore trade exports. Key manufacturing indicators suggest that the manufacturing sector is likely to expand at a slower pace in 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

-3.0% to 0.5%
y-o-y

Average price for
leasehold factory
and warehouse units

1.0% to 3.0%
y-o-y

Average price for
freehold factory and
warehouse units

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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