

INCREASING HEADWINDS

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Summary & Recommendations

With broad based demand, Singapore overall industrial property market rents have been bottoming out. But with deteriorating manufacturing and trade statistics, industrial rents and occupancy could come under fresh pressure. Industrialists have already become more cautious on their space requirements, renewals and expansion plans.

- > Business park rents increased 0.5% HOH and 2.1% YOY while factory and warehouse rents saw marginal declines.
- > Ageing factories will likely be under the most pressure as more than 78% of the supply pipeline is factory space.
- > We recommend landlords of ageing properties consider asset enhancements, such as increasing the floor loading capacity, to be ready for Industry 4.0.

		H1 2019	Full Year 2019	2018-23 Annual Average
 Demand	> We expect leasing demand to lag behind supply in 2019-2021 due to the weaker trade conditions. We estimate 2018-2023 annual net absorption of 8.6 million sq ft, 25% below the 10-year historical average.	5.0mn sq ft*	10.1mn sq ft*	8.6mn sq ft*
 Supply	> From JTC's data, we expect island-wide industrial net supply to be front-loaded in 2019-2020, adding 31.5 million sq ft (net), or 6.0% to total stock, before easing in 2021.	5.5mn sq ft*	14.7mn sq ft*	10.0mn sq ft*
		HOH / End H1	YOY / End 2019	Annual Average Growth 2018-23 / End 2023
 Rent (psf pm)	> Warehouse-logistics rents should remain soft, before stabilizing from 2022 onwards on diminished supply. We expect the rental gap to widen between business parks and factory/warehouse space.	-0.8% SGD1.24 #	-0.8% SGD1.24 #	0.2% SGD1.26 #
 Vacancy	> We expect overall industrial vacancy rates to slightly increase after 2019 as demand should lag supply. Vacancy should decline after 2022 as supply subsides.	0pp 10.7%	0.3pp 11.0%	0pp 10.7%
 Capital Values/ Yields**	> We expect overall industrial capital values to hold steady. Overall yields should remain stable, at about 6.0% for 30-year leasehold industrial properties.	0pp 6.0%	0pp 6.0%	0pp 6.0%

Source: Colliers International. Note: USD1 to SGD1.3535 at the end of H1 2019. 1 sq m = 10.7639 sq ft. "pp" refers to percentage point.

*On a net lettable area basis #Rental values refer to warehouse-logistics rents **Yields refer to industrial properties with 30-year land leases.

Widening rental gap between the “new economy” and “old economy”

Based on advanced estimates from the Ministry of Trade and Industry (MTI), Singapore’s GDP grew by only 0.1% YOY in Q2 2019, the lowest in a decade. As of 22 July 2019, Oxford Economics has further downgraded Singapore’s GDP growth forecast for the year from 1.9% to 0.7%, on weaker Chinese import demand and persistent trade war uncertainties.

According to Colliers, business park monthly rents increased 0.5% HOH and 2.1% YOY to SGD4.33 (USD3.20) per sq foot in H1 2019 amid very tight supply. We notice that tech firms continued to gravitate towards newer business parks and high-tech spaces for good amenities and cost savings. Monthly rents for high-spec industrial buildings located outside of science parks and business parks increased 1.0% HOH and YOY to SGD2.93 (USD2.16) per sq foot. Meanwhile, average gross monthly rents of warehouse-logistics properties slipped 0.8% HOH and YOY to SGD1.24 (USD0.92) per sq foot.

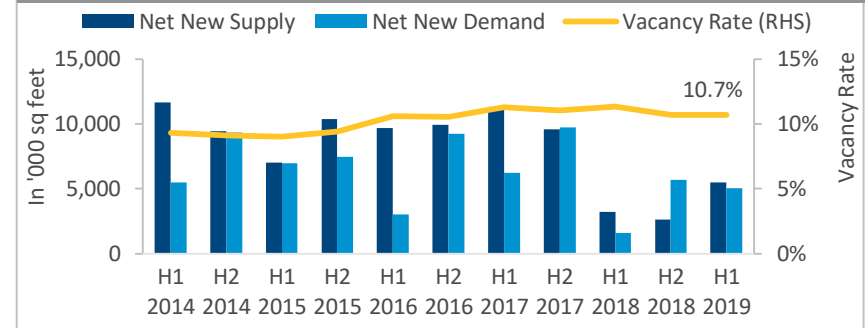
Going forward, new business park properties and high-spec spaces should continue to enjoy favorable rental growth due to their premium quality and limited stock, while older factory space may see flat to declining rents. As such, we expect the rental gap of business park / high-specs spaces and the general factory/warehouse space to widen towards the end of 2019.

Factory space dominates upcoming supply

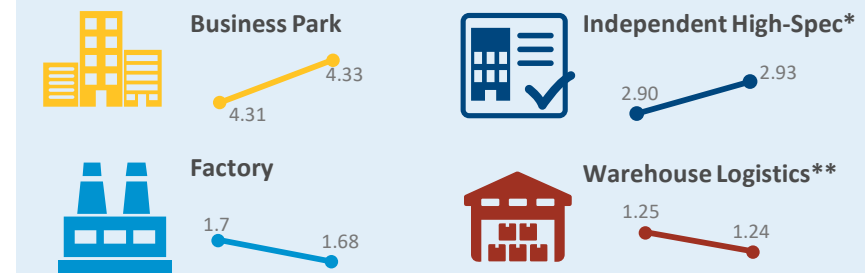
According to JTC, the total industrial stock completions in H1 2019 stood at 5.5 million sq feet (511,000 sq metres, net), of which more than 56% are single-user factory spaces. These total completions were close to the full-year 2018 completions of 5.8 million sq feet (543,000 sq metres). Demand followed supply closely in H1 2019, resulting in a stable all-industrial vacancy rate of 10.7%, unchanged from the end of 2018.

In H2 2019, JTC expects another 10.2 million sq feet (946,000 sq metres, gross) of industrial space, 77% of which are single-user factories. Assuming 90% efficiency, total completed industrial space in 2019 would be around 15 million sq feet (1.4 million sq metres, net), an increase of more than 2.5 times from 2018. New supply across all industrial types is set to further intensify in 2020 to 18.8 million sq feet (1.7 million sq metres, gross), led by multiple-user factories at 47%, before tapering off from 2021 onwards.

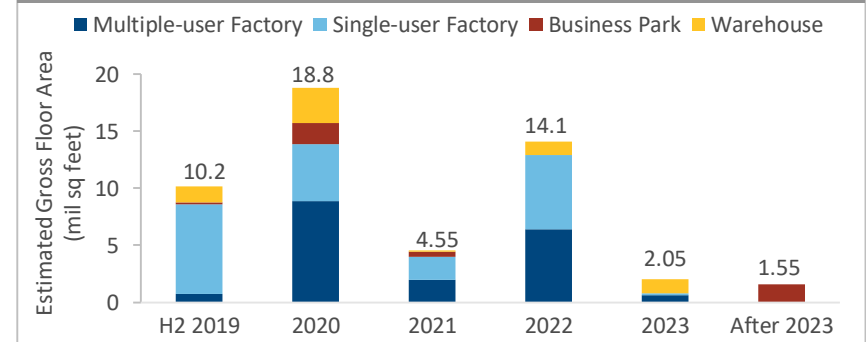
All-industrial new supply, new demand & vacancy rate



Average monthly gross rents by type (SGD per sq foot, HOH change)



Upcoming new supply by types



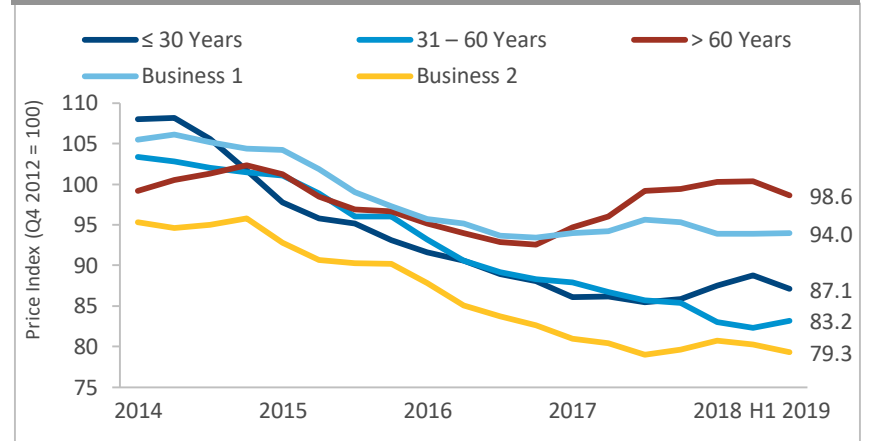
Source: Colliers International, JTC (as of 30 July 2019). * Independent High-Specs refer to top quality modern multi-level, multi-tenanted space that includes the latest or recent generation of building services, prestigious lobby finish and good views. ** Warehouse-Logistics rents refer to average of ramp-up and cargo lift warehouses rents.

Prices fell marginally, yields should hold steady

According to JTC, the price index of overall industrial space in H1 2019 decreased by 0.2% from H2 2018, mainly dragged by multiple-user factories in areas zoned for heavy industries (Business 2). Median prices per sq foot for strata-titled units transacted in the first half of 2019 were SGD423 (USD313) for factories, largely stable HOH, and SGD506 (USD374) for warehouses, a 12.3% decline from SGD577 (USD426) in H2 2018. According to [Colliers International's Asia Cap Rate Report](#), net yields for industrial properties with short leaseholds of 30 years remained unchanged HOH and YOY at 5.5–6.5% in H1 2019.

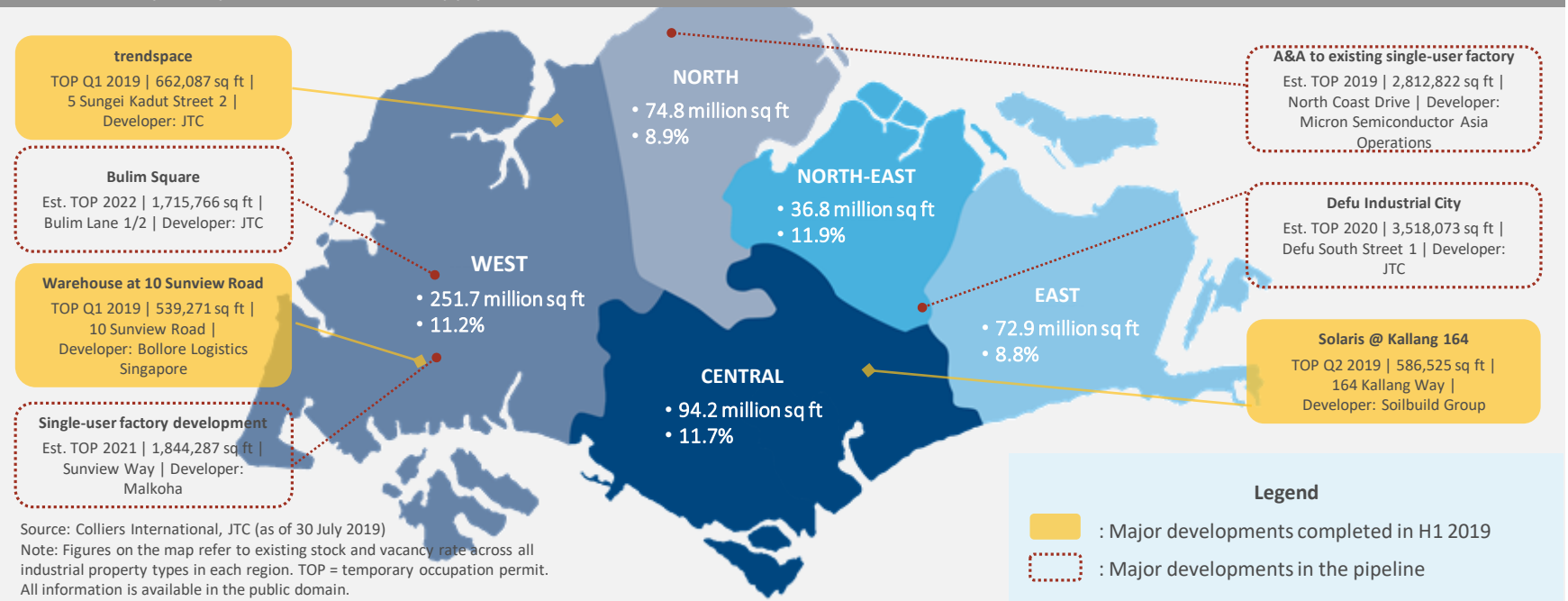
We expect capital values for prime industrial properties with freehold or longer land tenure to be firm in the near future due to their scarcity. We note declining interest for 20-year leasehold land in the government land sales as industrialists hold off capital expenditure and expansion plans.

Price index of multiple-user factory by zoning and remaining tenure



Source: Colliers International, JTC (as of 30 July 2019)

Stock, vacancy, completions and future supply



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