

ECONOMIC AND SUPPLY HEADWINDS

Industrial rents and prices have been stable in 2019, supply to rise significantly in 2020

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Summary & Recommendations

Singapore's industrial property market continued to navigate the economic headwinds, remaining soft in H2 2019. Warehouse and factory rents decreased marginally while business park rents continued to edge up 0.9% HOH and 1.4% YOY.

The recent COVID-19 outbreak could hit manufacturers with disruption to the global supply chain in the near term. Coupled with an ample stock pipeline, factory rents would likely remain under pressure.

Meanwhile, the *flight to quality* trend should drive demand and support rents for new business park and high-spec factory space in the coming quarters.

We recommend landlords upgrade their assets to align with Industry 4.0, such as automation and the Internet of Things to improve productivity.

	H2 2019	Full Year 2020	2020-24 Annual Average
 <p>Demand</p> <p>> We expect leasing demand to remain soft in 2020 on weaker trade, before outpacing supply in 2021. Net absorption in 2020-2024 should average 9.6 million sq ft per annum, 16% below the 10-year historical average.</p>	2.8mn sq ft *	17.1mn sq ft *	9.6mn sq ft *
 <p>Supply</p> <p>> From JTC's data, we expect total net new supply to more than double YOY in 2020 to 20.2 million sq feet, or about 4% of total stock, before coming off in 2021. Business park supply is set to intensify from 2023.</p>	3.8mn sq ft *	20.2mn sq ft *	9.0mn sq ft *
	HOH / End H2	YOY / End 2020	Annual Average Growth 2020-24 / End 2024
 <p>Rent (psf pm)</p> <p>> We forecast warehouse-logistics rent to stabilise in 2020-2021 before recovering from 2022 on benign supply. Business parks and high-spec spaces could see continued rental growth on healthy demand.</p>	-0.8% SGD1.23 #	-0.8% SGD1.22 #	+0.8% SGD1.28 #
 <p>Vacancy</p> <p>> We expect overall industrial vacancy rates to edge up in 2020 as net demand lags net supply. Vacancy should decrease from 2021 onwards as demand improves.</p>	+0.1pp 10.8%	+0.1pp 10.9%	-0.3pp 9.4%
 <p>Capital Values/Yields**</p> <p>> We expect overall industrial capital values to remain stable, possibly increasing marginally for prime properties, due to their scarcity. Over the next five years, yields should hold at 6.0% for 30-year leasehold properties.</p>	0pp 6.0%	0pp 6.0%	0pp 6.0%

Source: Colliers International. Note: USD1 to SGD1.3472 at the end of H2 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.

Singapore’s industrial market remained soft...

Based on advanced estimates from the Ministry of Trade and Industry (MTI), Singapore economy grew by only 0.7% in 2019, the weakest growth in a decade. The latest COVID-19 outbreak is expected to take a toll on the economy. Oxford Economics, on 7 February 2020, downgraded Singapore’s 2020 GDP growth forecast by 0.4 ppt to 1.0%. In the near term, the manufacturing sector could be affected by the disruption to the global supply chain due to factory closures and cuts to transport links across China.

Based on Colliers’ data, as of end-2019, average monthly factory gross rent fell by 1.8% YOY to SGD1.67 (USD1.2) per sq foot .Average monthly gross rent of warehouse-logistics also slipped by 1.6% YOY to SGD1.23 (USD0.9) psf. In contrast, monthly business park rents increased by 1.4% YOY to SGD4.37 (USD3.2) psf on tight supply while independent high-spec industrial buildings saw monthly rents climbing 1.4% YOY to SGD2.94 (USD2.2) psf.

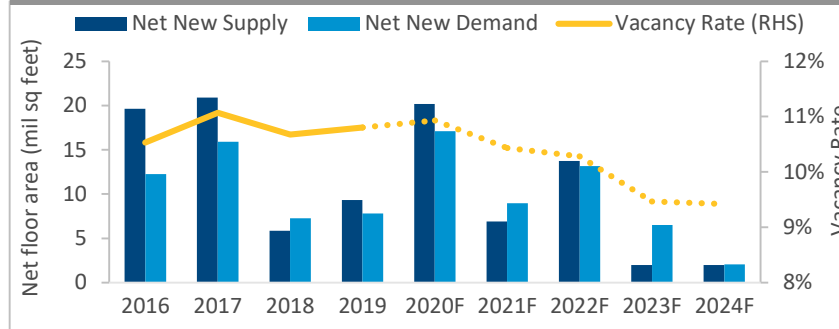
Based on data from JTC, the all-industrial vacancy increased by 0.1 ppt YOY to 10.8% in 2019 as supply outpaced demand. We forecast 2020 new supply to double YOY to 20.2 million sq feet (1.9 million sq metres, net). We expect supply to taper off in 2021 to around 6.9 million sq feet (642,000 sq metres, net) before picking up again in 2022 at 13.7 million sq feet (1.3 million sq metres, net). We estimate 76% of the 2020-2024 supply is factory space.

...with a two-tiered outlook

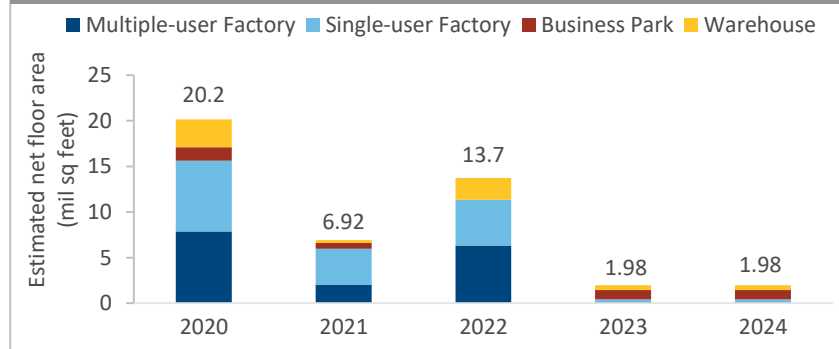
In general, we forecast continued two-tier performance between older lower-specifications and newer higher-specifications facilities. Centrally-located business parks and high-spec buildings with good amenities should continue to attract healthy demand while those older and further away from MRT stations or in suburban areas could face more pressure. Overall, we expect business park and high-spec rents to see slight upticks in the next quarters. Even within business parks, the performance is likely to be two-tier with the newer ones in the city fringe likely seeing healthier demand.

Industrial rents for multi-user factories and single-user factories would likely moderate amid the greater supply in 2020. Warehouse rent should remain soft in 2020-2021 amidst global trade uncertainties. Rent for warehouse-logistics space could pick up from 2022 as supply diminishes. Location and supporting infrastructure could also be differentiating factors for specialized industries such as food factories and data centres.

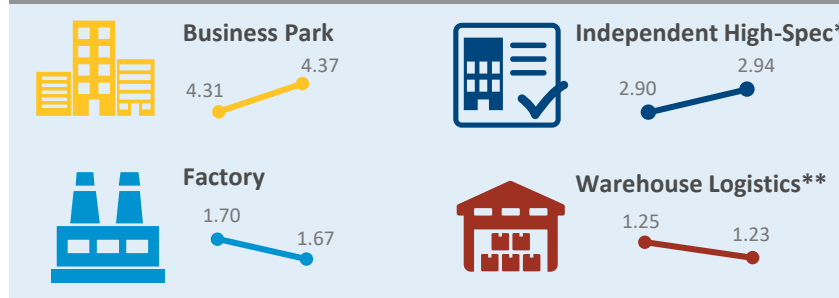
All-industrial new supply, new demand & vacancy rate



Upcoming new supply by type



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



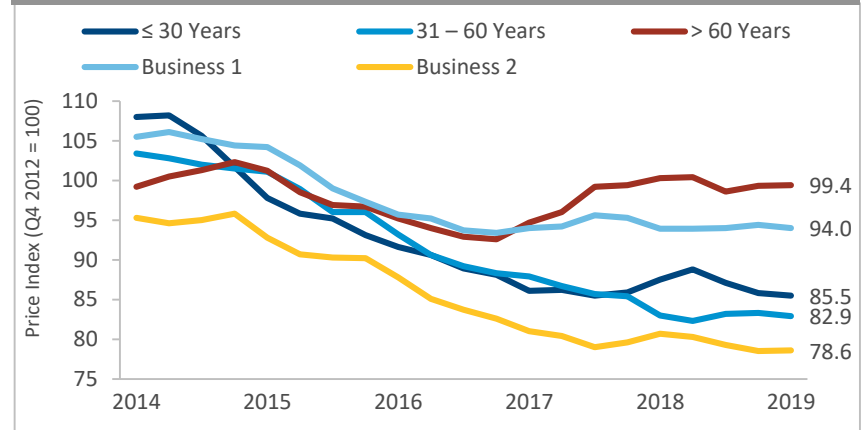
Source: Colliers International, JTC (as of 31 January 2020). *Independent High-Spec refer to top quality modern multi-level, multi-tenanted space that includes the latest or recent generation of building services, prestigious lobby finish and good views, located outside of science parks and business parks. ** Warehouse-Logistics rents refer to average of ramp-up and cargo lift warehouses rents.

Capital values declined 0.3% in 2019

According to JTC, the price index of overall industrial space in H2 2019 decreased by 0.1% HOH and 0.3% YOY as the overall land lease tenures of industrial properties continued to decline amidst weak rents. Median prices per sq foot of strata-titled units transacted in H2 2019 were SGD394 (USD292) for factories, a 4.6% decline YOY, and SGD570 (USD423) for warehouses, -0.9% YOY.

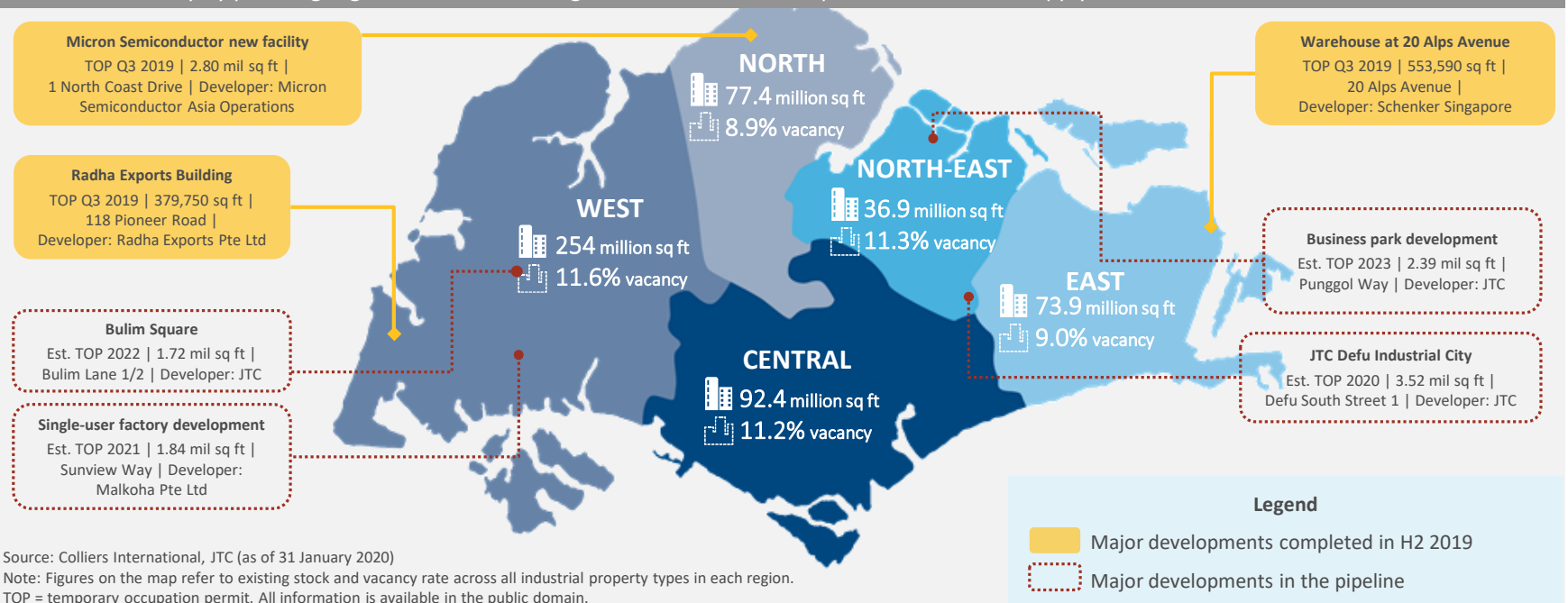
We expect capital values of prime industrial properties with freehold or land tenures of 60 years and above to see marginal uptick in the next few years due to their scarcity. While we note the subdued interest for government’s industrial land sales in 2019, we anticipate stronger demand for high-spec industrial spaces in 2020. According to [Colliers International’s Asia Cap Rate Report](#), net yields for industrial properties with short leaseholds of 30 years and below remained flat throughout 2019 at 5.75–6.25%. We expect this stable trend to hold over the next five years.

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



Source: Colliers International, JTC (as of 31 January 2020). Note: Business 1 (B1) zoning is intended for light and clean use. Business 2 (B2) zoning may be used for heavy industries that have a greater environmental impact.

Stock and vacancy by planning regions, end-2019, along with select recent completions and future supply



Source: Colliers International, JTC (as of 31 January 2020)

Note: Figures on the map refer to existing stock and vacancy rate across all industrial property types in each region. TOP = temporary occupation permit. All information is available in the public domain.

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