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NEW ECONOMY SECTORS GAINING GROUND

Logistics warehouses, data centres and business parks are bright spots

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Insights & Recommendations

Singapore's industrial property market was relatively resilient in H1 2020 amid the global COVID–19 pandemic. Factory rents decreased 1.4% while warehouse rents were flat.

Overall occupancy since Dec 2019 improved 0.2 pps to 89.4%, as more warehouse space was leased with companies stockpiling and increased ecommerce activities in H1. Rising demand for web-enabled services during lockdowns has also driven demand for data centres.

We expect general factory space to remain weak with the recession but demand for business park and high-spec spaces should be supported by the thriving technology sector.

We recommend landlords remodel to higher specifications while being more flexible in lease negotiations.

		H1 2020	Full Year 2020	2020–24 Annual Average
Demand	> In 2020, we expect decreasing factory space demand but growing demand for warehouse space. We forecast annual industrial space absorption in 2020-2024 to be 10.1 mil sq ft, 11% below the 10-year historical average.	3.8mn sq ft *	8.6mn sq ft *	10.1mn sq ft *
Supply	> We estimate half of the 15.4 million sq ft of new supply expected in 2020 could be deferred due to construction delays. Annual new supply in 2020-2024 of 9.8 million sq ft is 29% below the 10-year historical average.	3.2mn sq ft *	15.4mn sq ft *	9.8mn sq ft *

		HOH / End H1	YOY / End 2020	Annual Average Growth 2020–24 / End 2024
Rent (psf pm)	> We forecast warehouse-logistics rent to stabilise in 2020 before recovering from 2021 on sustained demand. General factory, business parks and high-spec spaces should soften in 2020 before a recovery from 2021.	0% SGD1.23 #	0% SGD1.23 #	+0.8% SGD1.28 #
Vacancy	> We expect overall industrial vacancy rates to edge up in 2020 as demand lags net supply. Vacancy could improve from 2022 onwards as supply tapers off.	-0.2pp 10.6%	+0.2pp 12.2%	-0.2pp 9.6%
Capital Values/ Yields **	> We expect overall industrial capital values to remain stable, possibly rising for prime data centres and logistics properties, due to rising demand. Yields should remain stable at 6.0% for 30-year leasehold properties.	0pp 6.0%	0pp 6.0%	0pp 6.0%

Source: Colliers International. Note: USD1 to SGD1.3932 at the end of H1 2020. 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.

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Singapore's industrial market showed resilience…

According to Ministry of Trade and Industry (MTI) in Q2 2020 Singapore's economy shrank by 13.2% YOY and 42.9% QOQ (seasonally adjusted annualized), the worst quarter on record. The manufacturing and Information & Communications (Infocomm) sectors were among the most resilient, having contracted only 0.7% and 0.5% YOY respectively. Manufacturing has been and will likely continue to be supported by the biomedical, electronics and precision engineering clusters, while the Infocomm sector will benefit from firms' continued demand for IT and digital solutions.

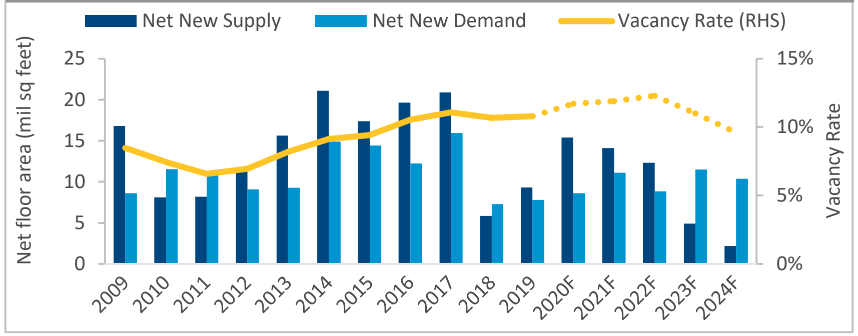
Based on Colliers' data, as of June 2020, average monthly factory gross rent fell by 1.4% HOH to SGD1.65 (USD1.18) per sq foot. Business park rents decreased by 0.4% HOH to SGD4.35 (USD3.13) per sq foot while independent high-spec industrial buildings saw monthly rents also falling 0.3% HOH to SGD2.93 (USD2.10) per sq foot, as COVID-19 dampened business sentiment and leasing activities. With increased demand soaking up excess vacant space, warehouse-logistics' average monthly gross rent flat stayed flat HOH at SGD1.23 (USD0.88) per sq foot.

Based on data from JTC, all-industrial occupancy increased by 0.2 ppt HOH to 89.4% as of June 2020, as more warehouse space was leased for stockpiling and ecommerce activities during the pandemic. While we estimate half of the 15.4 million sq ft expected completions in 2020 could be delayed (due to COVID-19 lockdowns) and thus alleviate fears of a supply glut, the supply pipeline remains ample at about 14 million sq feet (1.3 million sq meters) per annum 2020-2022, before tapering off in 2023. We estimate 84% of the H2 2020-2024 supply is factory space, while the remaining 16% is warehouse space.

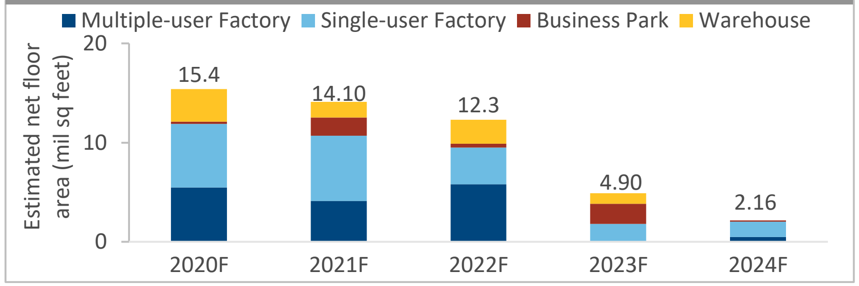
…but will still be under pressure

While warehouses have benefited from increased ecommerce and stockpiling during COVID-19, we note that there is still ample available stock. As vacancy continues to improve below its current 11.7% level, we expect warehouse rents to stabillise in 2020 and pick up from 2021 onwards, led by ramp-up logistics space. We expect general factory rents could fall 3% in 2020, while business parks and hi-specs space could edge down 1% in 2020, as industrialists pause expansion plans and recalibrate or pivot their space requirements in view of the weak trade and economic conditions.

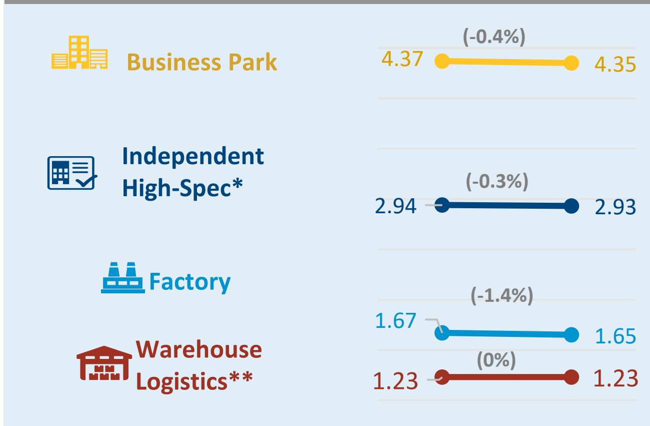
All-industrial new supply, new demand & vacancy rate



Upcoming new supply by type



Average monthly gross rents by type (SGD per sq foot, H2 2019 and H1 2020, HOH change)



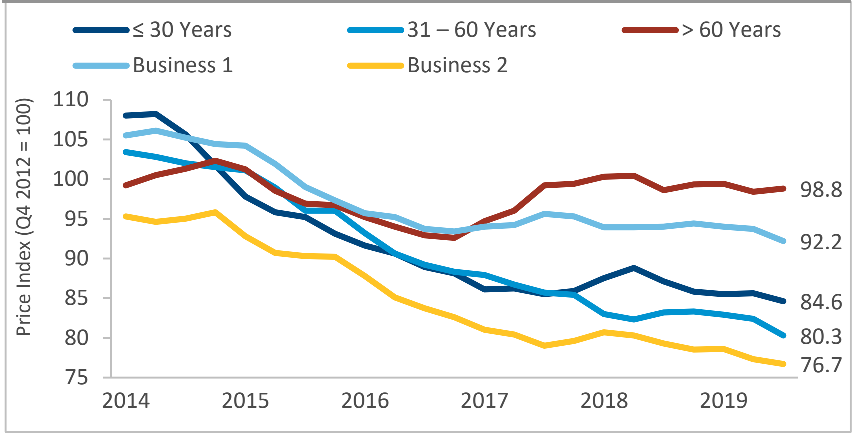
Source: Colliers International, JTC (as of 30 June 2020). *Independent High-Spec refer to top quality modern multi-level, multi-tenanted space that includes the latest or recent generation of building services, prestigious lobby finish and good views, located outside of science parks and business parks. ** Warehouse-Logistics rents refer to average of ramp-up and cargo lift warehouses rents.

Capital values declined 1.6% in H1 2020

According to JTC, the price index of overall industrial space in H1 2020 decreased by 1.6% HOH and 1.7% YOY, reflecting mainly the weaker factory rents. In H1 2020, the number of strata-titled factory units transacted fell 41% HOH and 48% YOY to 316, while that for warehouse units fell 58% HOH and 71% YOY to 11. Median prices per sq foot were SGD347 (USD249) for factories, -8.4% HOH and -16.2% YOY, and SGD568 (USD408) for warehouses, +0.2% HOH and 10.1% YOY, reflecting a relatively stronger outlook for warehouses.

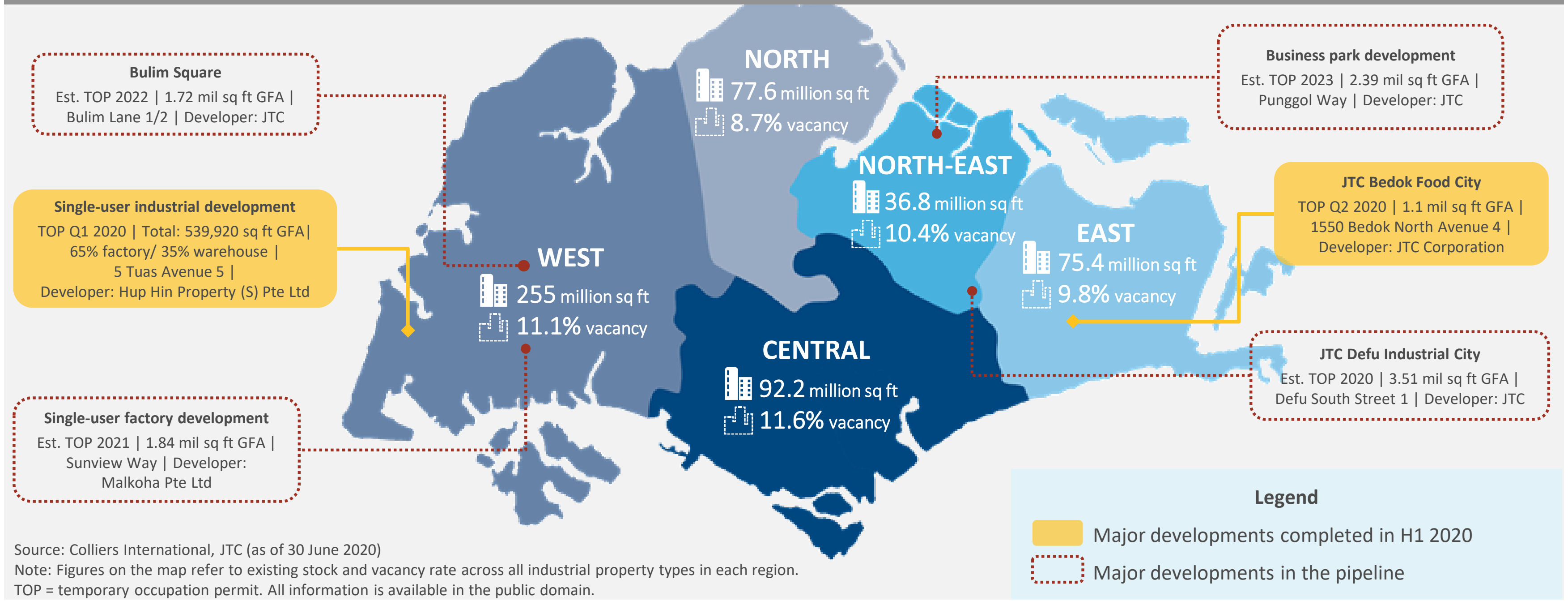
Anecdotally, we are seeing more interest from property funds and REITs for industrial assets, in particular, logistics warehouses and hi-specs space such as data centres. According to Colliers International's Asia Cap Rate Report, net yields for Singapore industrial/logistics properties remained stable in H1 2020, at 5.75–6.25%.

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



Source: Colliers International, JTC (as of 30 June 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, Jun 2020, along with select recent completions and future supply



Source: Colliers International, JTC (as of 30 June 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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