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A BRIGHTER OUTLOOK IN 2021

Logistics warehouses and hi-specs space to be bright spots

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Insights & Recommendations

Singapore's industrial property market was relatively resilient in 2020 with the JTC rental and price index declining 1.5% YOY and 2.7% YOY, respectively. Q4 2020 witnessed a recovery, which could continue into 2021, as the economy rebounds. We forecast warehouse rents to rise 1.3% YOY, while factory rents could stay flat on ample supply.

Demand for business park and hi-spec spaces should be supported by the thriving technology sector and biomedical manufacturing.

Overall occupancy improved 0.7 ppt in 2020 to 89.9%, driven by warehouses on increased stockpiling and ecommerce activities.

We recommend landlords adopt Industry 4.0 and remodel to higher specifications while being more flexible in lease negotiations.

		H2 2020	Full Year 2021	2021–25 Annual Average
Demand	> 2020 saw new total industrial demand of 7.2 million sq ft, -7.5% YOY. In 2021, we expect increased demand for warehouse space due to rising ecommerce. Long term demand should match the 10-year historical average.	▼ 3.4mn sq ft *	▲ 12.4mn sq ft *	▲ 11.2mn sq ft *
Supply	> We expect supply in 2021 to jump multi-fold YOY (1.8x 10-year historical average) due to construction delays in 2020. Annual new supply in 2021-2025 of 11.9 million sq ft is 10% below the 10-year historical average.	▼ 0.6mn sq ft *	▲ 24.5mn sq ft *	▲ 11.9mn sq ft *

		HOH / End H2	YOY / End 2021	Annual Average Growth 2021–25 / End 2025
Rent (psf pm)	> We forecast warehouse-logistics rent to grow 1.3% YOY in 2021 on sustained demand. Business parks and high-spec spaces should also recover in 2021, though factory rents could stay flat on higher new supply.	-0.6% ▼ SGD1.22#	1.3% ▲ SGD1.23#	1.0% ▲ SGD1.28 #
Vacancy	> We expect overall industrial vacancy rates to rise in 2021 due to a short-term factory space oversupply. Vacancy could improve from 2022 onwards as supply tapers off.	-0.6pp ▼ 10.1%	1.7pp ▲ 11.8%	-0.1pp ▼ 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 and rents. Yields to 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 SGD1.3221 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.

Singapore's industrial market showed resilience

According to the Ministry of Trade and Industry (MTI), Singapore's economy contracted 5.4% YOY in 2020, a reversal from the 1.3% growth in 2019. Manufacturing had been the most resilient sector in 2020, growing 7.3% YOY despite the pandemic, while construction and services contracted 35.9% YOY and 6.9% YOY respectively. In Q4 2020, GDP growth contracted 2.4% YOY but grew a seasonally adjusted 3.8% QOQ, once again driven by the manufacturing sector, which expanded 10.3% YOY. Going forward, manufacturing could be supported by robust semiconductor demand from the 5G and automotive markets. The IT services sector could benefit from firms' continued demand for IT and digital solutions.

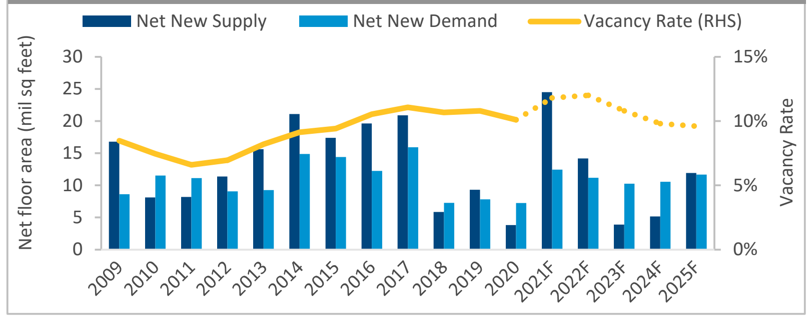
According to Colliers' research, average monthly industrial gross rents fell by 0.6% HOH in Q4 2020 as Covid-19 continued to dampen business sentiment and leasing activities. For the full year, factory rents declined the most at 1.9% YOY, while business parks and high-spec buildings have been the most resilient (-1.0% YOY and -0.9% YOY respectively). Rents of warehouse-logistics space were down 0.6% HOH and 1.2% YOY in Q4 2020 to SGD1.22 (USD0.92) per sq foot, despite higher take-up as landlords prioritised occupancy over rents.

Based on data from JTC, all-industrial occupancy increased by 0.7ppt to 89.9% in 2020 (+0.5 ppt HOH in H2 2020), as warehouse occupancy rose 1.9ppt to 89.9%. Barring further construction disruptions, supply in 2021 looks abundant at 24.5 million sq feet (2.3 million sq metres), 76% of which is factory space. This is equivalent to 1.8x the 10-year historical average as factory supply is scheduled to increase 6.4x YOY. As such, we expect all-industrial vacancy to rise 1.7 ppt to 11.8% by end of 2021, while rents for factories remain flat.

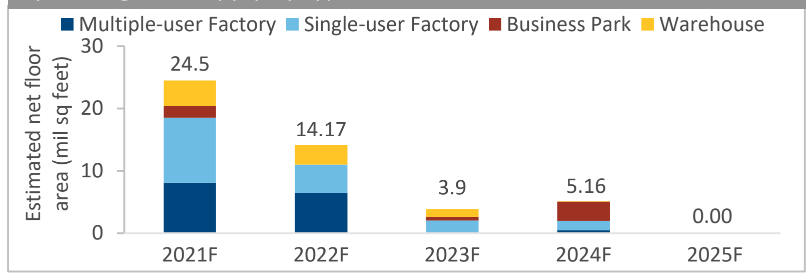
Recovery expected in 2021

In 2021, we expect a recovery in most industrial segments along with the overall economic rebound, with Oxford Economics forecasting a GDP growth of 5.6% in 2021. We forecast continued and growing demand for warehouse space to drive a 1.3% YOY rental growth, the highest among all segments, led by ramp-up logistics space. Factory rents, on the contrary, should stay flat in 2021, before recovering in 2022, as ample supply suppresses rental growth. We expect rents of business parks and hi-specs space to grow 1%, supported by the thriving technology sector.

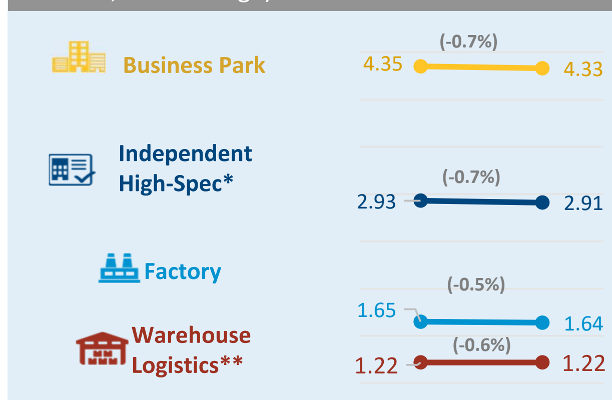
All-industrial new supply, new demand & vacancy rate



Upcoming new supply by type



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

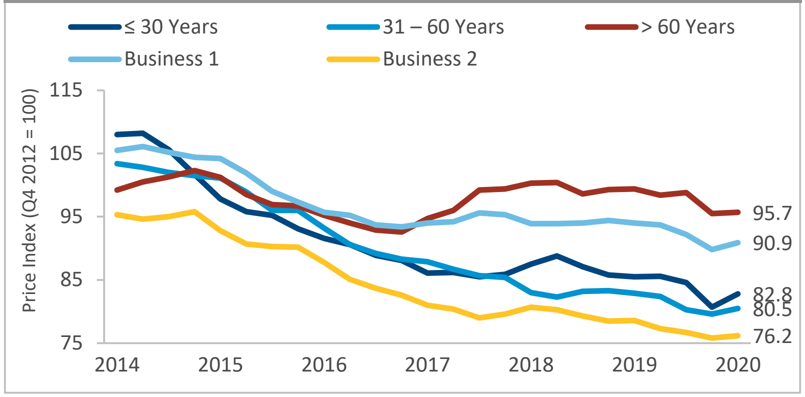


Source: Colliers International, JTC (as of 31 December 2020).
*Independent High-Spec refers to top quality modern, multi-level, multi-tenanted space that includes the latest or recent generation of building services, prestigious lobby finish and good views, located outside of science parks and business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

Industrial transaction volumes recovered in H2 2020

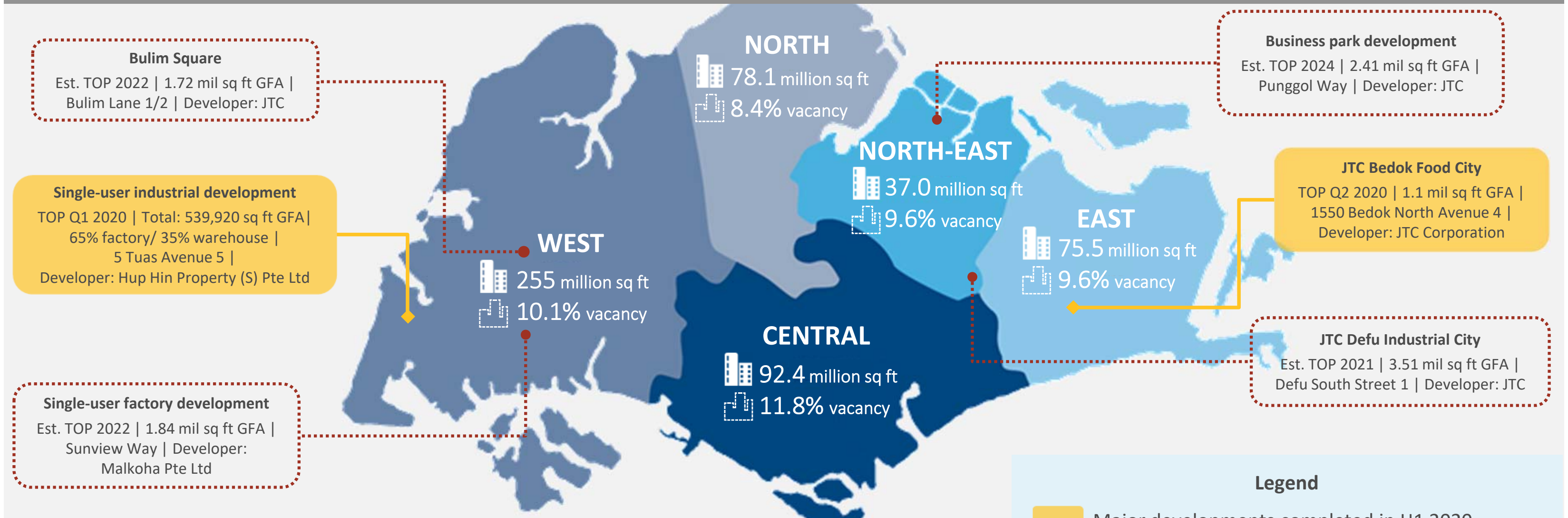
According to JTC, the overall industrial price index declined by 1.1% HOH in H2 2020 . This brings the full year price decline to 2.7% YOY, dragged by multi-user factories, reflecting the weaker factory rents. Notably, the number of transactions recovered to normalised levels in H2 2020 from abysmal levels in H1 2020 due to lock-downs. In H2 2020, the number of transactions for factory units increased 1.4x HOH to 792 (2015-2019 5-year semi-annual average 553), while that of warehouse units jumped 3.2x HOH to 54 (5-year semi-annual average 34), reflecting some pent-up demand. The total number of industrial transactions fell only 2.2% YOY in 2020. Multi-user factory median prices rose 1.3% YOY in 2020 to SGD394 (USD298) per sq ft while warehouses declined 8.2% YOY to SGD540 (USD408) per sq ft. 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' valuation team, net yields for Singapore industrial/logistics properties remained stable in H2 2020, at 5.75–6.25%.

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



Source: Colliers International, JTC (as of 31 Dec 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, Dec 2020, along with select recent completions and future supply



Source: Colliers International, JTC (as of 30 December 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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