Industrial Market

OrangeTee
Keener Sense of Real Estate

Industrial Market Snapshot 4Q17

13th February 2018

Key indicators at a glance

Indicators	3Q17	4Q17
Economy (year on year growth, %)		
GDP at 2010 prices	5.4	3.1
Manufacturing	19.2	6.2
Industrial price index	91.0	90.0
Q-o-q change (%)	-0.9	-1.1
Industrial rental index	91.3	91.2
Q-o-q change (%)	-1.1	-0.1
3-month SIBOR (%)	1.124	1.208
Q-o-q change (%age points)	0.131	0.084

Note: 4Q17 GDP figures are advance estimates.

Source: JTC, MTI, OrangeTee Research

RESEARCH & CONSULTANCY

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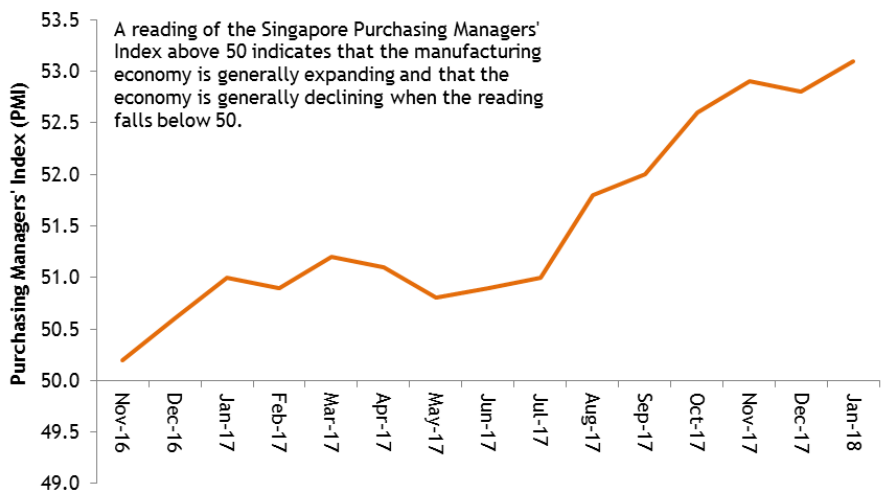
Factory prices and rentals to remain under pressure in face of substantial pipeline supply

The PMI has remained in positive territory for the past 17 months, due in large part to the robust global economic recovery. Prices and rentals fell by 1.1% and 0.1% q-o-q respectively in 4Q17, and have fallen by 5.7% and 2.8% for the full year of 2017. The pace of decline for the whole of 2017 is slower than in 2016, when prices and rentals fell by 9.1% and 6.8% respectively.

Even though price and rents have slowed their downward march on the back of strong economic performance in 2017, a substantial supply of new industrial space is expected in 2018, even as vacancy rates remain at elevated levels. Of the 1,621,000 sqm of industrial space that is expected to be completed in 2018, 1,275,000 sqm is factory and business park space. With the 5-year annual average demand for such space standing at just 752,000 sqm, there is a wide gap between potential demand and projected supply.

Overall, although price and rentals declines have slowed in 2017, they are likely to remain soft in the short to medium term on account of the rather substantial demand supply gap. However, due to the advent of Industry 4.0, demand for well-located, high-spec B1 space is likely to remain robust.

Exhibit 1: Purchasing Managers' Index



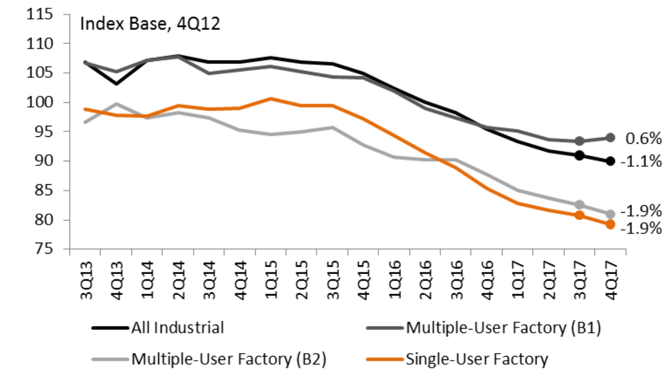
Source: SIPMM, OrangeTee Research

PMI extends stay in positive territory to 17 consecutive months

The PMI has remained in expansionary territory since September 2016, largely due to the global economic recovery.

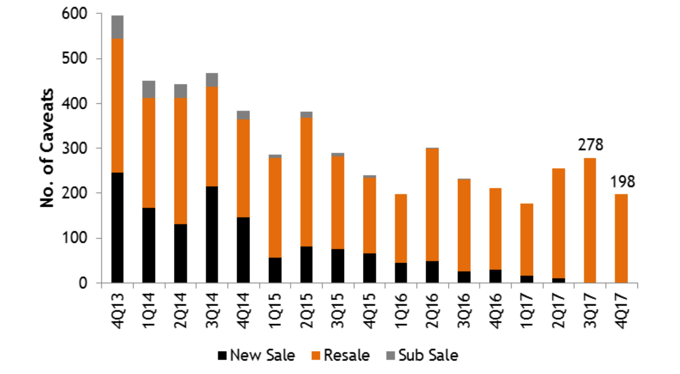
After dipping slightly in Dec 17, the PMI rebounded to levels not seen since Dec 09. This is in spite of the electronics sector's slower expansion, indicating robust performance in other manufacturing sectors as well.

Exhibit 2: Quarterly Industrial Price Index



Source: JTC, OrangeTee Research

Exhibit 3: Transaction volume (Caveats)



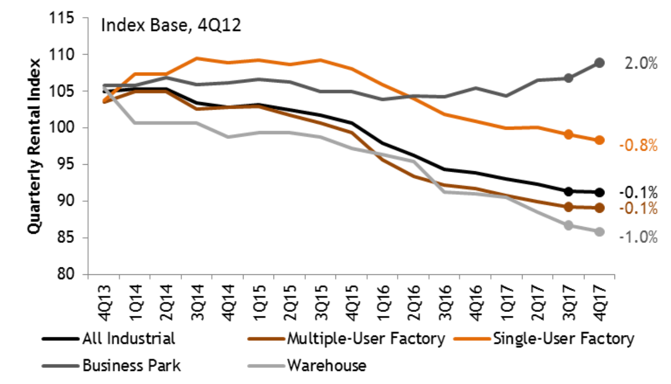
Source: JTC, OrangeTee Research

Overall transaction volumes near previous year's despite dearth of New Sales

Overall industrial price fell by 1.1% q-o-q in 4Q17, bringing the full-year decrease in prices to 5.7% for 2017. This is a slower pace of decline as compared to 2016's 9.1% fall in prices. Single-user factories and B2 multi-user factory space both exhibited a faster pace of price declines, falling by 1.9% q-o-q. On the other hand, B1 multi-user space price rose by 0.6% q-o-q after falling for the past 10 consecutive quarters.

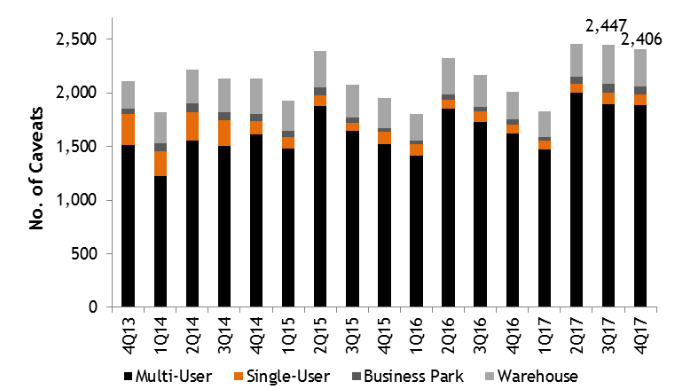
Transaction volumes fell by 28.8% due to seasonal factors and a dearth of new sales as developers continue to hold off on sales as prices remain soft. However, full-year 2017 transaction volume is just 3.6% lower than in 2016, as the number of resale transactions rose by 11.3% across the same time period. This reflects healthy demand for industrial space, especially for properties with longer remaining leases of 30 years and above. Demand for well-located, high-spec B1 space is also expected to rise as Singapore continues to move into the Fourth Industrial Revolution.

Exhibit 4: Quarterly Industrial Rental Index



Source: JTC, OrangeTee Research

Exhibit 5: Rental transactions (by factory types)



Source: JTC, OrangeTee Research

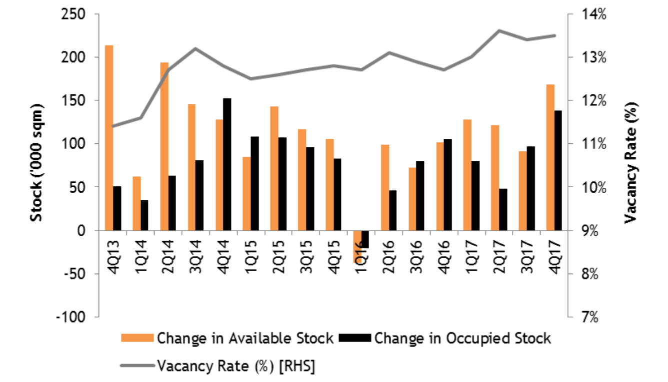
Pace of rental declines generally slower; faster appreciation for Business Park rentals

Overall industrial rents fell marginally by 0.1% q-o-q, after falling by 1.1% last quarter. This is the smallest fall in overall rental prices since 1Q15. The respective pace of rental declines for each industrial segment with the exception of Business Parks has also slowed. Business Park rentals rose by 2.0% q-o-q, after rising by 0.3% and 2.1% in 3Q17 and 2Q17 respectively. Overall rentals have fallen by 2.8% in 2017, which is of a smaller magnitude than the 6.8% fall in 2016.

Total industrial rental transaction volume fell by 1.7% q-o-q in 4Q17, but is 19.7% higher on a y-o-y basis. This brings the number of rental transactions in 2017 to 9,140, a 9.9% increase over 2016's volume, and the highest figure since records began in year 2000. The elevated number of rentals could be due in part to the low supply of new units for sale, which could have shifted demand for space to the rental market.

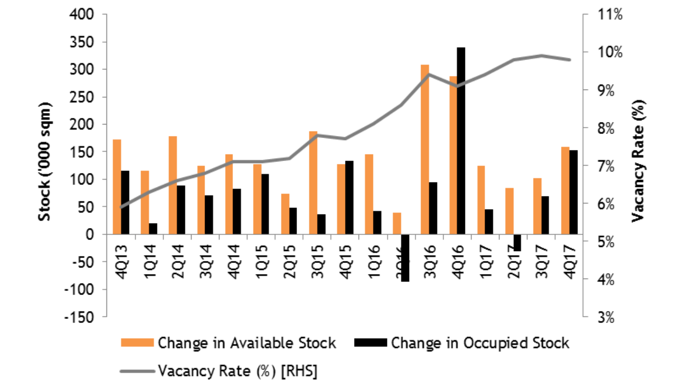
Even though rentals transactions are at record levels and the pace of rental decline has slowed, the substantial expected incoming supply in 2018 will likely exert downward pressure on rents in the short to medium term.

Exhibit 6: Net absorption of multiple-user factory



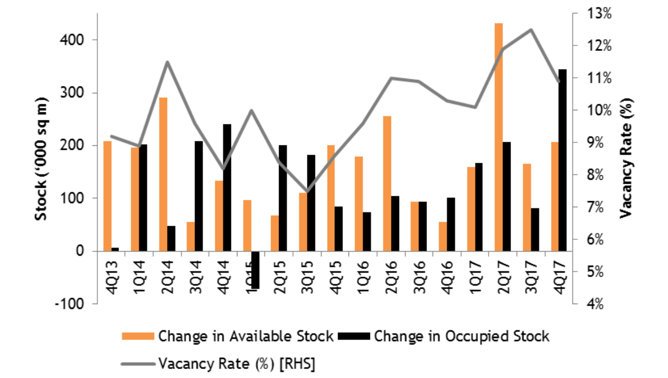
Source: JTC, OrangeTee Research

Exhibit 7: Net absorption of single-user factory



Source: JTC, OrangeTee Research

Exhibit 8: Net absorption of warehouse



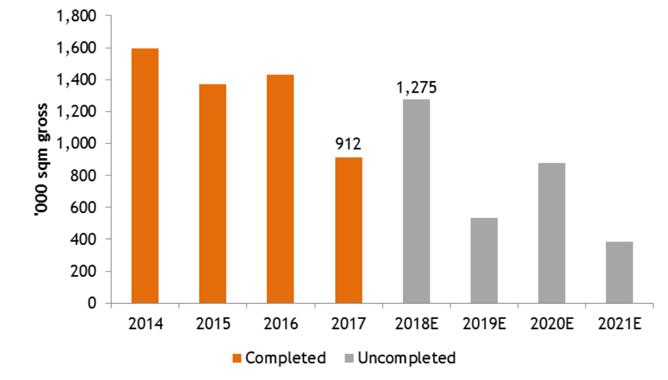
Source: JTC, OrangeTee Research

Vacancy rates likely to remain elevated

The amount of space being taken up across all segments has increased in 4Q17 as compared to 3Q17, but the injection of new available stock has mostly outpaced demand, keeping the respective vacancy rates above their 5-year averages.

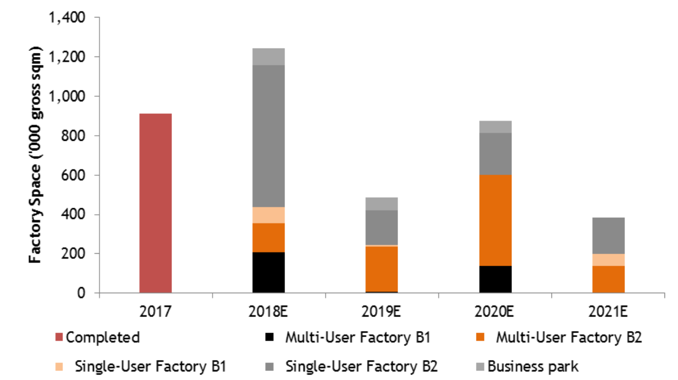
The supply of factory space is projected to increase by 39.8% in 2018 as compared to 2017 completions. Factory vacancy rates are likely to trend upwards in the short term as supply is gradually absorbed.

Exhibit 9: Factory space pipeline supply



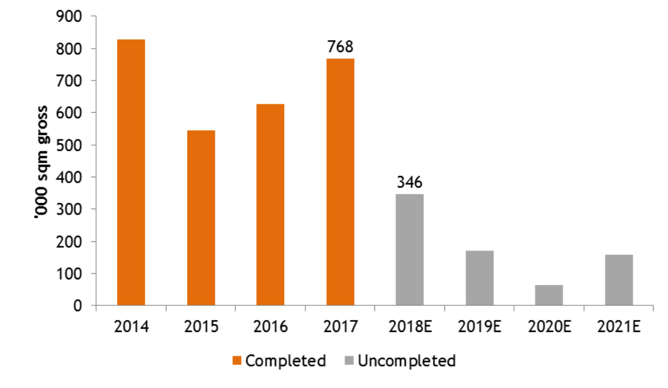
Source: JTC, OrangeTee Research

Exhibit 10: Factory pipeline supply by type and zoning



Source: JTC, OrangeTee Research

Exhibit 11: Warehouse space pipeline supply



Source: JTC, OrangeTee Research

Substantial increase in pipeline supply in 2018

The projected supply of 1,275,000 sqm of factory space in 2018 is 39.8% higher than the full-year supply in 2017. Most of the supply will be from the single-user factory segment, which is likely to further pressure already soft prices and rentals.

Warehouse supply, on the other hand, is projected to dip sharply by 55.0% in 2018. If demand for warehouse space remains robust, the sharp decrease in supply amidst falling vacancies could potentially support higher prices and rentals for the segment.

OrangeTee's Featured Projects

Shine @ Tuas South

Location:	11 Tuas South Link 1
Development:	6-storey multi-user ramp-up B2 Industrial Building
Units for Sale:	Ramp-up units from 1,800 sq ft Large Floor Plate Units from 11,000 sq ft
Features:	40-footer loading and unloading facilities on very floor Efficient and flexible unit layout Ample parking lots Proximity to future Tuas Mega Port and workers' dormitories Easy access to Malaysia via Tuas 2nd Link and future Singapore-KL High-speed Rail

LINK@AMK

Location:	3 Ang Mo Kio Street 62
Tenure:	60 years from 28 June 2011
Units for Sale:	3-storey Terrace Factories
Unit Size:	from 7,728 sq ft
Availability:	Immediate

Woodlands Connection

Location:	Woodlands Sector 2
Development:	2-storey Terrace Factories
Unit Mix:	8 Units of Light Industrial Use 18 Units of General Industrial Use
Features:	Heavy floor loading up to 25kN/m2 High floor-to-floor height up to 7.8m
Expected TOP	30 June 2018