

Industrial Market

Industrial Market Snapshot 3Q17

9th November 2017

Key indicators at a glance

| Indicators | 2Q17 | 3Q17 |
|---|-------|-------|
| Economy (year on year growth, %) | | |
| GDP at 2010 prices | 2.9 | 4.6 |
| Manufacturing | 8.2 | 15.5 |
| Property Market Indicators | | |
| Industrial price index | 91.8 | 91.0 |
| Q-o-q change (%) | -1.6 | -0.9 |
| Industrial rental index | 92.3 | 91.3 |
| Q-o-q change (%) | -0.8 | -1.1 |
| 3-month SIBOR (%) | 0.993 | 1.124 |
| Q-o-q change (%age points) | 0.054 | 0.131 |

Note: 3Q17 GDP figures are advance estimates.

Source: JTC, MTI, OrangeTee Research

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Strong economic performance and demand, but supply overhang keeps prices low

The PMI, an indicator of the manufacturing sector’s health, has been in expansionary territory for the past 14 months, reaching levels not seen since December 2009. GDP advance estimates for 3Q17 indicate that manufacturing has grown by 15.5% y-o-y, and GDP has grown by 4.6% in the third quarter.

Prices and rentals have fallen by 0.9% and 1.1% q-o-q respectively, as vacancy rates remain at elevated levels. A further 931,000 sqm of industrial space is expected to come on-stream in 4Q17, a sharp increase from 1,187,000 sqm of industrial space completed in the first three quarters of the year combined. This means that 44.0% of 2017 expected supply of industrial space could come on-stream in the last quarter of the year.

Although demand is expected to pick up due to improving economic conditions, an overwhelming supply in 4Q17 will likely exert downward pressures on price and rentals in the short to medium term. However, demand for industrial property with longer tenures (60 years and above) should remain in demand given their shrinking supply in the market as the majority of the land released since 2012 were 20-year leases.

Exhibit 1: Purchasing Managers’ Index



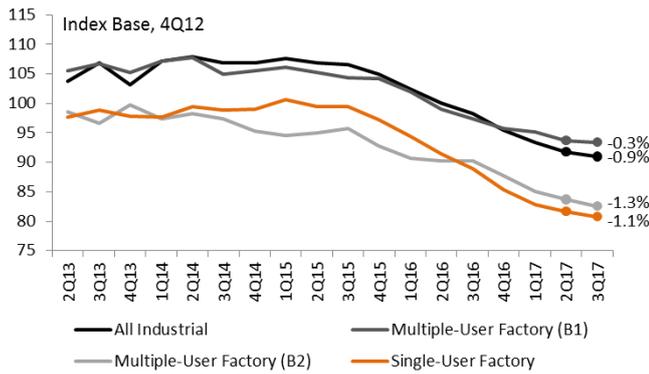
PMI shows manufacturing in 14th consecutive month of expansion

The sterling performance of the PMI culminated in an eight-year high of 52.6, the highest level seen since December 2009.

According to SIPMM, the publisher of the index, the numbers show a broad-based expansion. Coupled with growth in manufacturing employment, all indicators paint a rosy picture of manufacturing performance.

Source: SIPMM, OrangeTee Research

Exhibit 2: Quarterly Industrial Price Index



Source: JTC, OrangeTee Research

Exhibit 3: Transaction volume (Caveats)



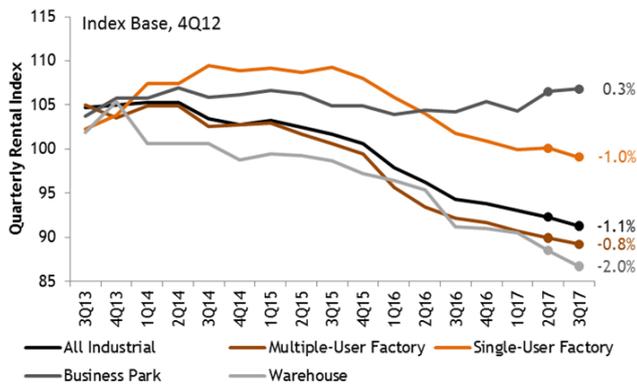
Source: JTC, OrangeTee Research

Robust sales volumes, but prices continue downward march

New sales volumes have continued to decline, with just one caveat lodged for the entire 3Q17. The decline in new sales volumes can be attributed to developers moving to hold back their launches and choosing to lease out their units in view of the weak market sentiments. Nonetheless, resale volumes are at their highest level since 2Q15, suggesting improving market demand.

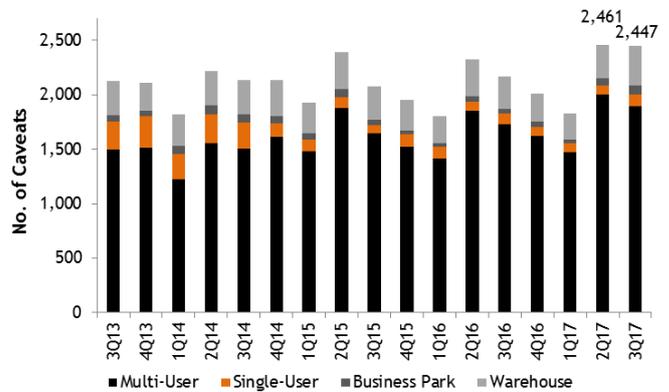
The overall industrial prices have fallen by 0.9%, the smallest fall in terms of magnitude since 3Q15. B2 multi-user factory space was the worst performer in 3Q17, falling 1.3% q-o-q. B1 multi-user factory space remained the most resilient, falling just -0.3% q-o-q in 3Q17. As Singapore continues to move into the Fourth Industrial Revolution or Industry 4.0, where there is a greater emphasis on higher value industries, demand for well-located, high-spec B1 space is expected to rise.

Exhibit 4: Quarterly Industrial Rental Index



Source: JTC, OrangeTee Research

Exhibit 5: Rental transactions (by factory types)



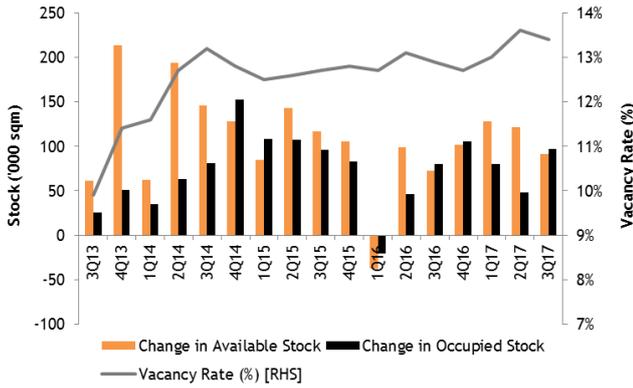
Source: JTC, OrangeTee Research

Rentals on a downward trend despite elevated volumes

Rentals are on a general downward trend, with overall industrial rents falling by 1.1% q-o-q. Warehouse rentals recorded the largest fall of 2.0% q-o-q, despite warehouse transaction volume reaching a record high of 358 in the quarter. Business Park rentals, on the other hand, bucked the trend and increased by 0.3% q-o-q, and registered a 48.3% increase in rental volumes.

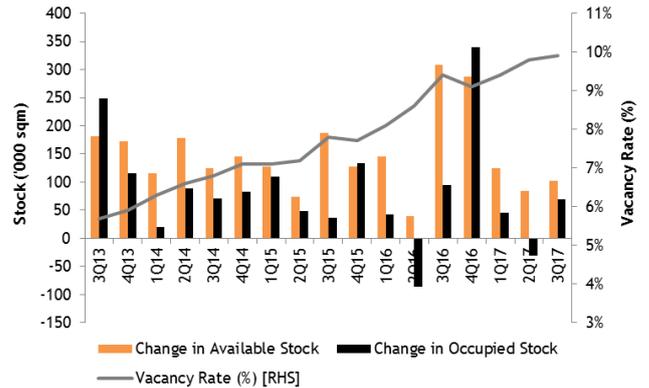
Total industrial transaction volume remains elevated despite falling from last quarter's high of 2,461 transactions by 0.6%, to 2,447 transactions. This is an increase of 12.7% on a y-o-y basis, and is the highest Q3 figures in 17 years, since records began in 2000. The rise in rental volumes and an improving economic outlook has likely slowed the fall in rentals, which has fallen by 1.8% in the first 3 quarters of 2017, as compared to a 3.7% fall over the corresponding period last year. Given the still significant expected supply in 4Q2017 - 2018, industrial rents are expected to remain weak till 2018.

Exhibit 6: Net absorption of multiple-user factory



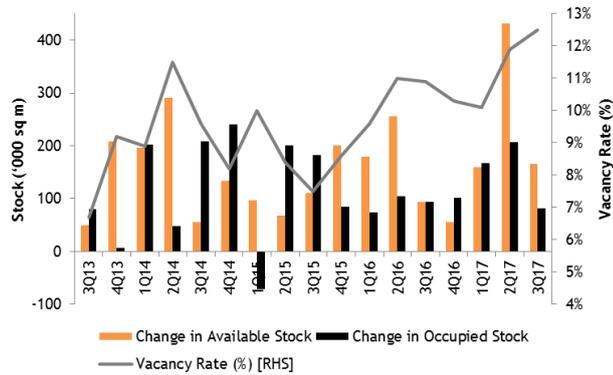
Source: JTC, OrangeTee Research

Exhibit 7: Net absorption of single-user factory



Source: JTC, OrangeTee Research

Exhibit 8: Net absorption of warehouse



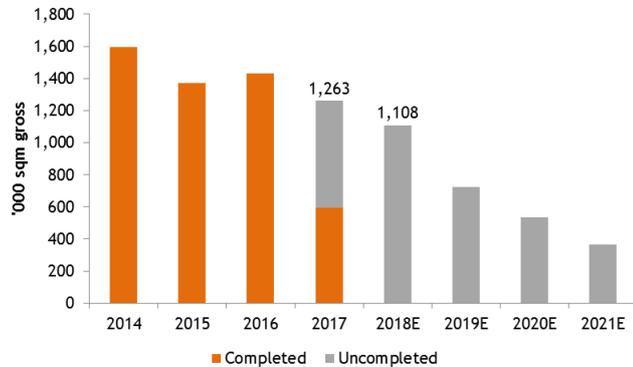
Source: JTC, OrangeTee Research

Vacancy rates remain high as demand lags supply

Tenants took up more space in 3Q17, but supply outstripped demand, causing vacancy rates to rise. Although Multiple-User factory space vacancy rates recorded a marginal dip in 3Q17, it is still the highest amongst the 3 industrial sectors, at 13.4%.

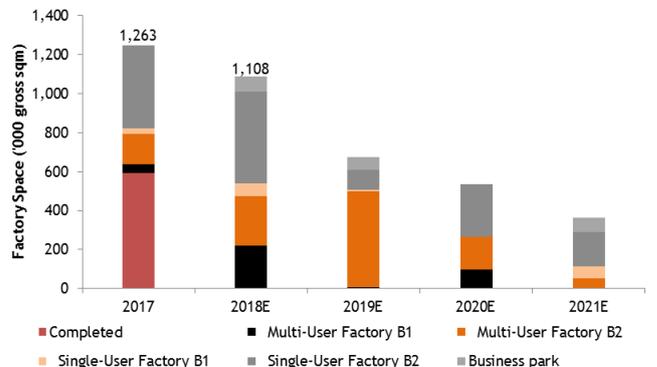
As a significant amount of supply is projected to come on-stream in 4Q17, vacancies are likely to trend upwards in the short term as the supply is slowly absorbed.

Exhibit 9: Factory space pipeline supply



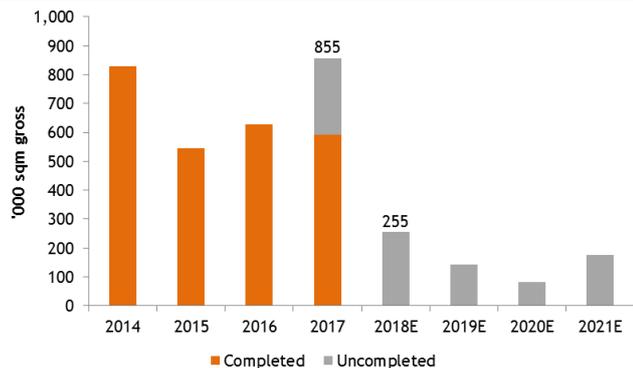
Source: JTC, OrangeTee Research

Exhibit 10: Factory pipeline supply by type and zoning



Source: JTC, OrangeTee Research

Exhibit 11: Warehouse space pipeline supply



Source: JTC, OrangeTee Research

Substantial incoming supply in 4Q17

4Q17's projected supply of 931,000 sqm, of which 669,000 sqm is factory space and the remaining 262,000 sqm is warehouse space, is close to the 1,187,100 sqm of space completed in the first three quarters of the year combined.

Supply is expected to taper slightly in 2018, with 1,108,000 sqm of space in the supply pipeline.

OrangeTee's Featured Projects

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