INDUSTRIAL

Q1 2019 • June 2019

Market commentary

Economy

The manufacturing sector, non-oil domestic exports (NODX) and the purchasing managers' index (PMI) show signs of a slowing economy and industrial sector. This is underpinned by ongoing economic headwinds which include slowing global economies and the prolonged and volatile trade negotiations between USA and China.

- NODX in March 2019 contracted to its lowest level in more than two years, led by a slump in electronic exports of more than 26.0 per cent year-on-year (y-o-y) and non-electronic exports falling 7.0 per cent y-o-y.
- While the PMI remains above 50 at 50.8, indicating expansion in the sector, it was lower than the previous quarter (Table 1). In contrast, the electronics PMI remained in contraction mode at 49.8, unchanged from Q4 2018.

Investment market

- Industrial transactions that are valued above $20m dropped significantly by more than 57.0 per cent in Q1 2019 to $424.3m. The largest transaction was a sale-and-leaseback deal with LTH Logistics on Jurong Island valued at $227.5m ($321 psf GFA). The other notable transaction was a vacant land site for a build-to-suit project with 42,310 square feet (sq ft) gross floor area (GFA) for Grab's HQ at one-north business park by Ascendas REIT worth $84m ($682 psf site area).

Table 1: GDP, PMI and NODX

Key economic indicators	Q4 2018	Q1 2019	Change
GDP - Manufacturing y-o-y	5.1%	-1.9%*	▼
NODX (seasonally adjusted) y-o-y	-7.8%	-8.9%	▼
Singapore PMI	51.1	50.8	▼

** Advanced estimates*

Source: MTI, Enterprise Singapore, SIPMM, Edmund Tie & Company Research

Private demand, occupancy and supply

- Despite a slowing manufacturing sector and lower demand for industrial space, the private industrial market appeared to have stabilised with slight improvements in occupancy rates (except for warehouses), largely supported by a slowing net supply down almost 8.0 per cent in Q1 2019.
- Demand and supply for warehouses reversed from negative to positive territory, with net supply overweighing demand (Table 2). This was driven by the take-up of recently completed warehouses underpinned by demand from e-commerce and logistics services.

Table 2: Private industrial demand, occupancy and supply (islandwide)

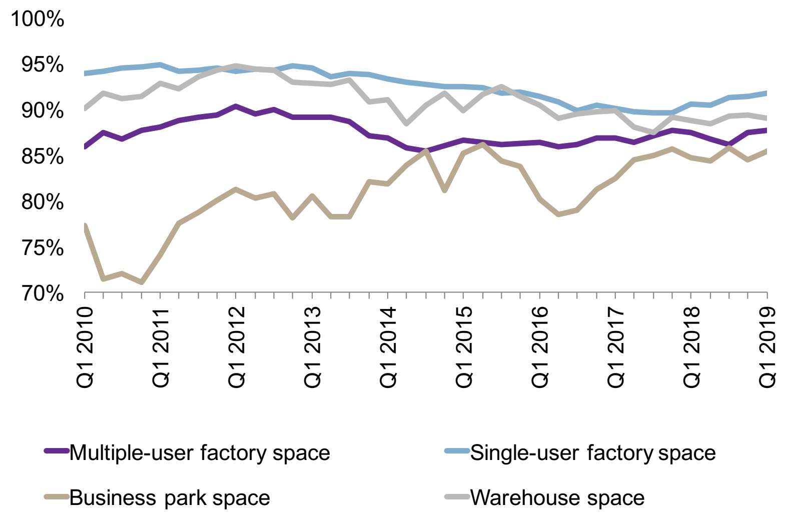
Industrial type	As at Q4 2018			As at Q1 2019			Q-o-Q %tage point change (Occupancy)
	Net absorption* ('000 sq ft)	Occupancy rate (%)	Net supply* ('000 sq ft)	Net supply* ('000 sq ft)	Occupancy rate (%)	Net supply** ('000 sq ft)	
Multiple-user factory	1,302	87.4	-32	420	87.7	65	0.3 ▲
Single-user factory	592	91.4	506	603	91.8	-549	0.4 ▲
Business park	54	84.5	355	323	85.4	161	0.9 ▲
Warehouse	-10	89.4	-129	431	89.0	969	-0.4 ▼
All industrial spaces	1,938	89.7	700	1,776	90.0	646	0.3 ▲

** Change in occupied space*   *** Change in available stock*

Source: JTC, Edmund Tie & Company Research

- Demand and occupancy for business parks continued to increase (Figure 1), especially from technology and R&D companies as well as for companies that do not require a presence in the central business district (CBD) as CBD office rents continued to rise. For instance, Cisco opened its first innovation centre in Southeast Asia and Cybersecurity Centre of Excellence , both in Mapletree Business City, and Google could be in advanced talks for some 400,000 sq ft at Alexandra Technopark which is near its existing campus.

Figure 1: Occupancy rates of private industrial space by type



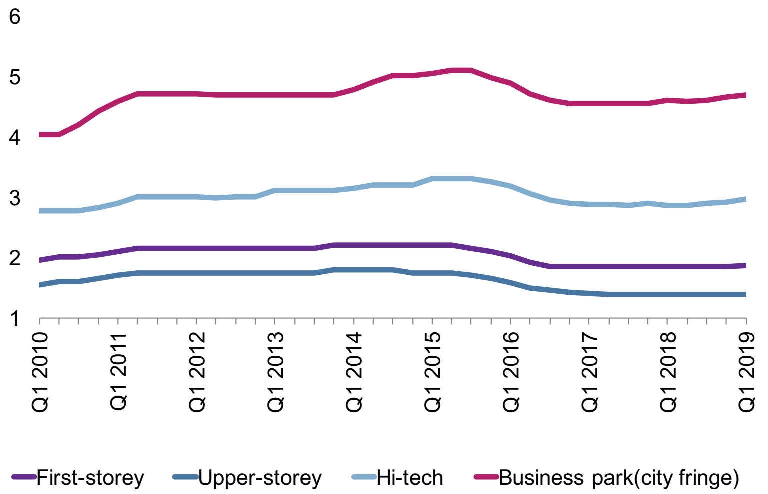
Source: JTC, Edmund Tie & Company Research

> Industrial sector remains vulnerable to external shocks amid economic and trade war uncertainties, although limited future supply is expected to provide some support to rental rates.

Rental rates

- Likewise, rental rates have remained largely flat with some increases for first-storey multi-user factory, hi-tech industrial and business park space of between 1.0 to 1.5 per cent (Figure 2 and Table 3).

Figure 2: Private monthly industrial gross rents by type



Source: Edmund Tie & Company Research

Table 3: Average monthly gross rents (islandwide)

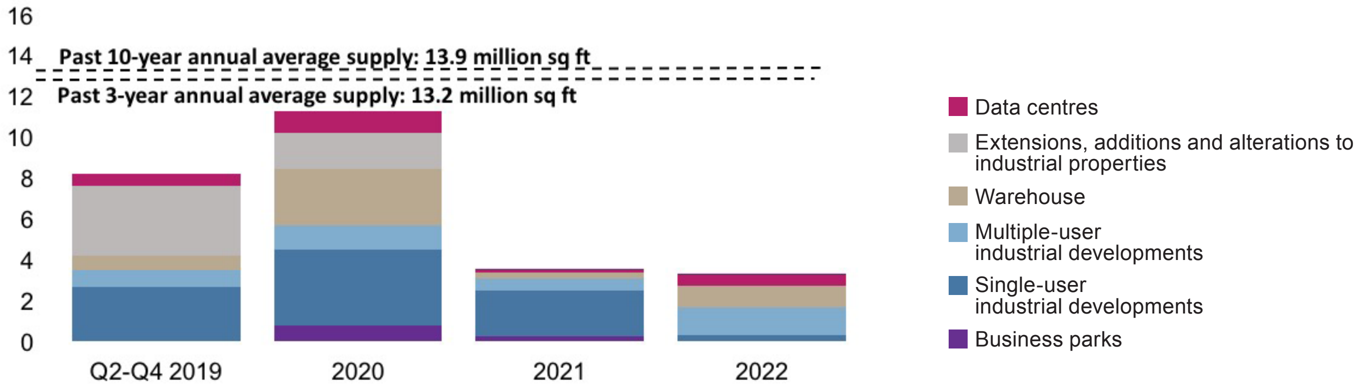
Industrial type	As at Q4 2018 ($psf)	As at Q1 2019 ($psf)	QoQ change (Est)
Multiple-user factory	**First-storey:** 1.75 to 1.95	1.75 to 2.00	1.3% ▲
	Upper-storey: 1.40 to 1.60	1.40 to 1.60	0.0% –
Warehouse/logistics	1.55 to 1.70	1.56 to 1.71	0.5% ▲
Hi-tech industrial	2.80 to 3.00	2.85 to 3.05	1.5% ▲
Business park	**City fringe:** 4.20 to 4.70	4.25 to 4.75	1.0% ▲
	Non-city fringe: 3.50 to 3.80	3.50 to 3.80	0.0% –

Source: JTC, Edmund Tie & Company Research

Supply pipeline

- The annual average industrial supply of circa 7m sq ft net lettable area (NLA) for the period Q2 2019 to 2022 is almost half the past three-year average of 13.2m sq ft NLA. In addition, more than 80.0 per cent of this new supply are owner-occupied/fully pre-committed.
- There are approximately seven data centres currently under construction, totalling some 2.4m sq ft (or 9.0 per cent of supply pipeline) with the largest being Google's third data centre of more than 1m sq ft NLA expected to be completed in 2020 (Figure 3). This is followed by Facebook's first data centre of some 1.8m sq ft NLA expected to open in 2022 (not included in the pipeline as development has not obtained planning approval).

Figure 3: Private industrial development pipeline (with planning approvals and GLS sites which are pending approvals)



Source: Edmund Tie & Company Research

Outlook

Despite current global economic uncertainties and a slowing local economy, the slower rate of supply coming into the market is expected to provide some support to occupancy and rents. However, the sector remains vulnerable to external shocks and may be significantly impacted should the US-China trade war escalate. Hence, rental rates are expected to remain stable with some downside risks (e.g. -2.0 to 2.0 per cent in 2019).

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